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Comptroller General
of the United States

United States General Accounting Office
Washington, DC 20548

November 1, 1999

The Honorable Pete V. Domenici
Chairman, Committee on the Budget
United States Senate

Dear Mr. Chairman:

In response to your request of September 9, we are providing you with the enclosed list of federal government programs, projects, activities, and/or facilities for review by a series of bipartisan congressional task forces for possible termination, reduction, deferral, or reform. The final decision on any significant change to an on-going federal activity is a policy choice for the Congress to make, but in a good faith attempt to respond to your request we have identified the enclosed candidates from the evaluations and analyses contained in our published work.

Enclosure I to this letter provides narrative discussions on over 60 candidates. In recent discussions with your staff, we were asked to identify oversight themes suggested by these candidates that could serve as the basis for your prospective bipartisan task forces. In general, our candidates reflect the need to reconsider what government does, how it does it, and who benefits from such government activities. As a result, the candidates in Enclosure I have been grouped within the following three general themes.

Reassessing what the federal government does. This theme addresses the basic purpose(s) and objective(s) of any federal entity or program. Our work has identified federal activities where conditions originally prompting the activity's establishment have changed (for example, where markets have evolved to address concerns that originally prompted federal intervention) or where the current cost/benefit of the program is questionable. This category includes several candidates for possible termination or consolidation that span a wide range of subject areas—from electric power generation and rural telecommunications services, to water subsidies and economic development assistance programs.

Redefining who benefits from federal government programs. The Congress originally defines the intended beneficiaries for any federal program or service based on certain perceptions of eligibility and/or need. Periodic oversight can be an effective means to ensure that limited resources remain properly targeted, in light of changing conditions, available resources, current program operations, and overall congressional priorities. For example, one specific oversight task force could address opportunities suggested by our work on programs that provide federal aid for business, individuals or corporations for activities they could undertake using their own resources. Candidates could include formula grants, tax expenditures and/or in-kind transfers.

Improving how federal government programs are delivered. Many of our options identify inefficient federal operations stemming from such problems as costly fragmentation and possible duplication in missions, facilities and programs, or the failure to weed out excessive administrative structures and costs. For example, one specific oversight task force topic could address possible consolidation and streamlining of locations for a range of federal facilities. In many cases, civilian agencies' physical locations and delivery structures have remained unchanged for decades, notwithstanding recent downsizing in most agencies, advances in communications and information processing technologies, and changes in the intended recipients of federal programs and activities. Several candidates on the enclosed list—ranging from Department of Energy laboratories to the Veterans health care system—suggest the need for a broad-scale oversight agenda that might ultimately evolve into a civilian agency version of the Defense Department's base realignment and closure commission.

The narratives for each candidate include references to related GAO reports and testimonies and a principal GAO contact for each suggested candidate. The narratives are intended to provide (1) a clear and concise description of underlying concerns and challenges, which are more fully developed in the key findings of our referenced reports and testimonies, and (2) one possible approach, within a budgetary context, to address these concerns. Of course, the Congress has a variety of ways to address the concerns raised by our work and the options discussed in the narrative are not necessarily the only or most feasible approach to address a particular issue.

Finally, as you requested, we have focused on specific programs, projects, activities, and/or facilities and have not addressed governmentwide concerns, such as those identified in our recent Performance and Accountability Series.[1] The issues discussed in that series, covering not only governmentwide matters but also the myriad and daunting management and performance challenges faced by virtually every federal department and agency, may also be useful to you in your efforts to focus and energize congressional oversight. In addition, we have not included the fundamental and far-reaching issues of Social Security and Medicare reform. While these issues need to be addressed and could yield substantial savings, they were outside the scope of this effort.

If I may be of further assistance, please call me at (202) 512-5500. This work was prepared under the direction of Paul L. Posner, Director, Budget Issues, who may be reached at (202) 512-9573.

Sincerely yours,

David M. Walker
Comptroller General
of the United States

Enclosure

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[1] Major Management Challenges and Program Risks: A Governmentwide Perspective (GAO/OCG-99-1, January 1999).

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## IMPROVING HOW FEDERAL GOVERNMENT PROGRAMS ARE DELIVERED

## Eliminate the Pulsed Fast Neutron Analysis Inspection System

One type of technology under development for detecting explosives and narcotics is a pulsed fast neutron analysis (PFNA) inspection system. PFNA is designed to directly and automatically detect and measure the presence of specific materials (e.g., cocaine) by exposing their constituent chemical elements to short bursts of subatomic particles called neutrons. Customs, Department of Defense, and Federal Aeronautic Administration officials do not believe that the current PFNA system would meet their operational requirements because it is too expensive ($10 million to acquire) and too large for operational use in most ports of entry or other sites. Operational testing is due to begin by the end of 1999 and will cost between $5 million and $8 million.

Eliminating PFNA—a system that the agencies do not want—would generate savings of $5 million to $8 million in testing costs and about $10 million in acquisition costs.

Terrorism and Drug Trafficking: Testing Status and View on Operational Viability of Pulsed Fast Neutron Analysis Technology (GAO/GGD-99-54, Apr. 13, 1999).

Contact: Laurie E. Ekstrand, (202) 512-8777

## Eliminate the Market Access Program

The United States Department of Agriculture administers the Market Access Program (MAP), an export promotion program that subsidizes overseas promotional activities for U.S. agricultural products. In response to recent congressional concerns and directions, USDA's Foreign Agricultural Service (FAS) has implemented several reforms, including targeting the program to small businesses and requiring "graduation" by limiting access to funding to 5 years.

Notwithstanding these improvements, adequate assurance does not exist to demonstrate that MAP funds are supporting additional activities rather than simply replacing company/industry funds. FAS requires participants to self-certify that MAP funds supplement, rather than supplant, private funding, and FAS regularly verifies that participants complete their certification statements. However, there is no way for FAS to determine what would have been spent by the companies in the absence of MAP funds, and this requirement has had no apparent impact on program participation.

In addition, questions remain about the overall economic benefits derived from MAP funding. FAS estimates of macroeconomic impact are overstated because they use a methodology inconsistent with guidance from the Office of Management and Budget. In addition, evidence from market-level studies is inconclusive regarding the program's impact on specific commodities in specific markets. In light of these questions, the Congress may wish to consider terminating MAP.

Agricultural Trade: Changes Made to Market Access Program, but Questions Remain on Economic Impact (GAO/NSIAD-99-38, Apr. 5, 1999).

Contact: Benjamin F. Nelson, (202) 512-4128

## Reassess Economic Development Assistance Programs and Agencies

Federal economic development efforts are fragmented and overlapping. For example, in 1994 there were a total of 342 federal economic development-related programs listed in the Catalog of Federal Domestic Assistance. These programs generally provide grants, loans, loan guarantees, or other assistance. Some programs, such as those managed by the Economic Development Administration (EDA), the Appalachian Regional Commission (ARC), and the Department of Housing and Urban Development (HUD), are similar enough to be potential candidates for merger or elimination. In addition, the effectiveness of these and other agencies' programs has often not been measured. While it is difficult to analyze the effectiveness of economic development programs, a strong causal linkage between a positive economic effect and EDA's or ARC's economic development assistance often has not been identified in the past. EDA, however, commissioned two studies of its public works program, including a May 1998 report that concluded that the program "does indeed produce permanent private-sector employment at a relatively low cost." The conclusion in the EDA report about the linkage is questionable, however, in that subsequent analyses have produced different results from the EDA study.

One option to reduce overlap and fragmentation in economic development assistance programs is to consolidate or eliminate similar programs, potentially leading to more efficient and effective delivery of economic development programs. This option is supported by a 1996 National Academy of Public Administration study that recommended reducing the fragmentation of agencies and programs that constitute the federal development effort and by a 1993 National Performance Review finding that the many federal development programs result in fragmentation and a lack of coordination. A second option is to assess the economic effects of federal economic development assistance programs and determine if the federal government should more closely target economic development assistance, or not provide it at all.

Economic Development: Observations Regarding the Economic Development Administration's May 1998 Final Report on Its Public Works Program (GAO/RCED-99-11R, Mar. 23, 1999).
Economic Development: Limited Information Exists on the Impact of Assistance Provided by Three Agencies (GAO/RCED-96-103, Apr. 3, 1996).
Economic Development Programs (GAO/RCED-95-251R, July 28, 1995).

Contact: Judy A. England-Joseph, (202) 512-7631

## Reassess RUS Electricity and Telecommunications Loan Programs

The Rural Utilities Service (RUS) was established to provide loan funds intended to assist in the development of the utility infrastructure in the nation's rural areas. RUS finances the construction, improvement, and repair of electrical, telecommunications, and water and waste disposal systems through direct loans and through repayment guarantees on loans made by other lenders. According to RUS reports, the outstanding principal owed on RUS loans totaled about $41 billion as of September 30, 1998. From a financial standpoint, RUS has successfully operated the telecommunications loan program, but the agency has had, and continues to have, significant financial problems with the electricity loan program. For example, during fiscal years 1994 through July 31, 1997, RUS wrote off the debt of five electricity loan borrowers totaling more than $1.7 billion. Since then, the agency has written off $0.3 billion and is in the process of writing off an additional $3.0 billion, and it is probable that the agency will continue to incur losses in the future.

RUS needs to take steps to increase the effectiveness and reduce the costs of its loan programs. RUS could, for example, (1) target loans to borrowers that provide services to areas with low populations, (2) target subsidized direct loans to borrowers that have a financial need for the agency's assistance, and (3) graduate the agency's financially viable borrowers from direct loans to commercial credit. Also, to reduce its vulnerability to losses, RUS could (1) establish loan and indebtedness limits, (2) set the repayment guarantee at a level below 100 percent, and (3) prohibit loans to delinquent borrowers or to borrowers who have caused the agency to incur loan losses.

In the alternative, due to the changes in the operating environment of the utility industry and changes in the demographics of the United States, the Congress may wish to consider whether RUS is still needed to assist in the development of the utility infrastructure in the nation's rural areas.

Rural Utilities Service: Status of Electric Loan Portfolio (GAO/AIMD-99-264R, Aug. 17, 1999).
Rural Water Projects: Federal Assistance Criteria and Potential Benefits of the Proposed Lewis and Clark Project (GAO/T-RCED-99-252, July 29, 1999).
Rural Water Projects: Federal Assistance Criteria Related to the Fort Peck Reservation Rural Water Project (GAO/T-RCED-98-230, June 18, 1998).
Rural Water Projects: Identifying Benefits of the Proposed Lewis and Clark Project (GAO/RCED-99-115, May 28, 1999).
Rural Utilities Service: Risk Assessment for the Electric Loan Portfolio (GAO/T-AIMD-98-123, Mar. 30, 1998).
Rural Utilities Service: Opportunities to Operate Electricity and Telecommunications Loan Programs More Effectively (GAO/AIMD-98-42, Jan. 21, 1998).
Federal Electricity Activities: The Federal Government's Net Cost and Potential for Future Losses (GAO/AIMD-97-110, Sept. 19, 1997).
Rural Development: Financial Condition of the Rural Utilities Service's Electricity Loan Portfolio (GAO/T-RCED-97-198, July 8, 1997).
Rural Development: Financial Condition of the Rural Utilities Service's Loan Portfolio (GAO/RCED-97-82, Apr. 11, 1997).

Contact: Linda M. Calbom, (202) 512-9508
Lawrence J. Dyckman, (202) 512-5138

## Corporatize or Divest Selected Power Marketing Administrations

The federal government began to market electricity after the Congress authorized the construction of dams and established major water projects, primarily in the 1930s to the 1960s. The Department of Energy's (DOE) four Power Marketing Administrations (PMAs)—Bonneville, Southeastern, Southwestern, and Western Area Power Administrations—market in 33 states primarily wholesale power produced at large, multiple-purpose water projects. Although federal laws and regulations generally require that the PMAs recover the full costs of building, operating, and maintaining the federal power plants and transmission assets, in some cases statutes and DOE's rules are ambiguous about or prohibit the recovery of certain costs. For example, for fiscal years 1992 through 1996, the federal government incurred a net cost of $1.5 billion from its involvement in the electricity-related activities of the Southeastern, Southwestern, and Western PMAs. At the end of fiscal year 1997, debt recoverable through the PMAs' power sales totaled about $22 billion and included nearly $2.5 billion in irrigation costs. In addition, the availability of federal power plants to generate electricity is below that of nonfederal plants because the federal planning and budgeting processes do not always ensure that funds are available to make repairs when needed.

The Congress may wish to reassess the role of PMAs in restructured and increasingly competitive electricity markets or consider alternative ways to ensure that they are operated in a more business-like way. For example, the Congress could divest the PMAs and related federal power assets, which would eliminate the government's presence in a commercial activity and, depending on the divestiture's terms and conditions and the price obtained, could produce both a net gain and a future stream of tax payments to the Treasury. In 1997, the Congressional Budget Office estimated that a sale of the Southeastern, Southwestern, and Western PMAs and related hydropower assets would result in revenues of between $8 billion and $11 billion, although losses also were possible depending on the terms and conditions of the sale. Alternatively, the Congress could reorganize the PMAs as federally owned corporations, which would retain federal ownership but could lead to improvements in how they operate. Both corporatization or divestitures of government assets have been accomplished recently in the United States and also overseas, and corporatization could serve as an interim step toward ultimate divestiture.

Federal Power: The Role of the Power Marketing Administrations in a Restructured Electricity Industry (GAO/T-RCED/AIMD-99-229, June 24, 1999).
Federal Power: PMA Rate Impacts, by Service Area (GAO/RCED-99-55, Jan. 28, 1999).
Federal Power: Regional Effects of Changes in PMAs' Rates (GAO/RCED-99-15, Nov. 16, 1998).
Power Marketing Administrations: Repayment of Power Costs Needs Closer Monitoring (GAO/AIMD-98-164, June 30, 1998).
Federal Power: Options for Selected Power Marketing Administrations' Role in a Changing Electricity Industry (GAO/RCED-98-43, Mar. 6, 1998).
Federal Electricity Activities: The Federal Government's Net Cost and Potential for Future Losses (GAO/AIMD-97-110 and 110A, Sept. 19, 1997).
Federal Power: Issues Related to the Divestiture of Federal Hydropower Resources (GAO/RCED-97-48, Mar. 31, 1997).
Power Marketing Administrations: Cost Recovery, Financing, and Comparison to Nonfederal Utilities (GAO/AIMD-96-145, Sept. 19, 1996).

Contact: Jim Wells, (202) 512-3841

## Consolidate or Eliminate DOE Facilities

Since 1982, seven major panels, commissions, and task forces, and several GAO studies have addressed how the Department of Energy (DOE) could achieve operational efficiencies in its research and development facilities. Recommendations have included focusing unclear missions, aligning laboratory activities with DOE goals, consolidating facilities, and replacing cumbersome, inefficient management structures. In particular, with the end of the Cold War, DOE may no longer need to maintain three nuclear weapons laboratories. DOE officials estimate that transferring most of Lawrence Livermore's nuclear weapons functions to Los Alamos could eventually save about $200 million in annual operating costs. A DOE-chartered task force—the 1995 Task Force on Alternative Futures for the Department of Energy National Laboratories—reported that DOE's entire laboratory system could be reduced productively by eliminating obsolete and redundant missions and supporting infrastructure. Because such consolidations have not occurred, science budgets are being spent increasingly on maintenance of obsolete and inappropriate infrastructure, rather than innovative research and development.

One approach to address these concerns is to begin a mission-by-mission examination of DOE. This reassessment should explore alternative organizational approaches to best implement DOE's missions and, ideally, should be part of a governmentwide restructuring of related programs and activities. Another option that might be considered would be to reorganize existing national laboratories to focus on specific DOE programs and activities, eliminating duplication of both structures and personnel. Possible options could include converting some labs into private or quasi-private entities, transferring labs to universities, or assigning them to different agencies whose missions better match lab strengths.

Department of Energy: Need to Address Longstanding Management Weaknesses (GAO/T-RCED-99-255, July 13, 1999).
Department of Energy: Key Factors Underlying Security Problems at DOE Facilities (GAO/T-RCED-99-159, Apr. 20, 1999).
Department of Energy: Uncertain Progress in Implementing National Laboratory Reforms (GAO/RCED-98-197, Sept. 10, 1998).
Department of Energy: A Framework for Restructuring DOE and Its Missions (GAO/RCED-95-197, Aug. 21, 1995).
Department of Energy: National Laboratories Need Clearer Missions and Better Management (GAO/RCED-95-10, Jan. 27, 1995).

Contact: Jim Wells, (202) 512-3841

**Open the Government Printing Office to Competition**

While there are limited exceptions, including those granted by the former Joint Committee on Printing, the Government Printing Office (GPO) effectively has a statutory monopoly over printing for the federal government—either by contracting with commercial sources or producing work in-house. GPO, which receives over $100 million in annual appropriations, also controls distribution, pricing and allocation of revenues for government documents through sales agent contracts. GPO's monopoly-like role in providing printing services perpetuates inefficiency because centralized control permits GPO to be insulated from market forces. As a result of its monopoly, the agency does not have incentives to improve operations and processes that will insure quality services at competitive prices.

The Congress may wish to consider changing the legislation that requires agencies to go through GPO to procure printing services. Federal agencies could be given the authority to make their own printing policies, requiring GPO to compete with private sector printing service providers. If GPO is unable to provide quality service at competitive prices, the need for retaining a government printing office could then be re-examined.

Management Reform: Implementation of the National Performance Review's Recommendations (GAO/OCG-95-1, Dec. 5, 1994).
Government Printing: Legal and Regulatory Framework is Outdated for New Technological Environment (GAO/NSIAD-94-157, Apr. 15, 1994).
Government Printing Office: Monopoly-Like Status Contributes to Inefficiency and Ineffectiveness (GAO/GGD-90-107, Sept. 26, 1990).

Contact: L. Nye Stevens, (202) 512-8676

## Continue Oversight of the International Space Station and Related Support Systems

In December 1998, the National Aeronautics and Space Administration (NASA) accomplished a significant step in its construction of the International Space Station (ISS): coupling the first two elements of the station in orbit. Notwithstanding this noteworthy achievement, there appears to be no abatement in the number of challenges NASA will face in the years to come. Recent studies have focused on (1) the increasing cost of building the space station, (2) uncertainties regarding costs associated with space station operations, and (3) the impact of Russia not meeting its commitments as a partner. Specifically, NASA has estimated that the annual cost to operate the ISS will average $1.3 billion, or $13 billion over a 10-year mission life. However, this estimate does not include all funding requirements, such as (1) costs associated with necessary upgrades to combat component obsolescence, (2) end-of-mission costs to either extend or decommission the ISS, and (3) a variety of supports costs (space shuttle flights, personnel, space communications, etc.) that are currently shown in other portions of NASA's budget. Similarly, Russia's ongoing problems in funding its share of the station's construction costs—problems which have delayed delivery of the first major Russian-funded component—have raised questions about its ability to continue to support operations costs during and after assembly.

The Congress is well aware of the challenges NASA faces in developing and building the ISS—challenges that have already translated into schedule delays and higher program cost estimates to complete development. Although assembly of the station is well underway and congressional support is substantial, the ISS warrants continued congressional oversight. The reason being that the ISS will impose significant demands on future budgets and will require critical decisions to be made on whether to develop new launch capabilities to support resupply activities. Opportunities for congressional oversight to ensure that NASA's other priorities are not sacrificed to primarily fund ISS operations will occur annually when the agency's budget is considered. For example, debate over alternative launch capabilities to the space shuttle is likely to start in January 2001 after test flights of the X-33 Reusable Launch Vehicle demonstrator are completed and data analyzed.

Space Station: Russian Commitment and Cost Control Problems (GAO/NSIAD-99-175, Aug. 17, 1999).
Space Station: Cost to Operate After Assembly Is Uncertain (GAO/NSIAD-99-177, Aug. 6, 1999).
Space Station: Status of Russian Involvement and Cost Control Efforts (GAO/T-NSIAD-99-117, Apr. 29, 1999).

Contact: Louis J. Rodrigues, (202) 512-4841

## Convert the Public Health Service Commissioned Corps to Civilian Status

The Commissioned Corps of the Public Health Service (PHS) was established in the late 1800s to provide medical care to sick and injured merchant seamen. Over the ensuing years, the Corps' responsibilities have grown, and Corps officers today are involved in a wide range of PHS programs, such as providing medical care to Native Americans at tribal and Indian Health Service facilities, psychiatric, medical, and other services in federal prisons, and health sciences research. As the result of their temporary service with the armed forces during World Wars I and II, members of the Corps were authorized to assume military ranks and receive military-like compensation, including retirement eligibility (at any age) after 20 years of service. Corps officers continue to receive virtually the same pay and benefits as military officers, including retirement. The functions of the Corps are essentially civilian in nature, and, in fact, some civilian PHS employees carry out the same functions as Corps members. Further,

- the Corps has not been incorporated into the armed forces since 1952, and the Department of Defense (DOD) has no specific plans for how the Corps might be used in future emergency mobilizations;
- generally, the Corps does not meet the criteria and principles cited in a DOD report as justification for the military compensation system; and
- other than Corps officers who are detailed to the Coast Guard and DOD, Corps members are not subject to the Uniform Code of Military Justice, which underlies how military personnel are managed.

Corps officials maintained that uniformed Corps members are needed as mobile cadres of professionals who can be assigned with little notice to any location and function, often in hazardous or harsh conditions. However, other agencies, such as the Environmental Protection Agency, the National Transportation Safety Board, and the Federal Emergency Management Agency, use civilian employees to respond quickly to disasters and other emergency situations that could involve both hazardous or harsh conditions.

Based on 1994 costs, when all of the components of personnel costs—including basic pay and salaries; special pay, allowances, and bonuses; retirement; health care; life insurance; and Corps members' tax advantages—were considered, PHS personnel costs could have been reduced by converting the PHS Corps to civilian status. Any decision to convert the Corps could be implemented in a number of ways to address a variety of transition issues. For example, all officers with a specific number of years in the Corps could be allowed to continue until retirement or other separation, while all new entrants would be required to be civilian employees. Although CBO estimates that converting officers with fewer than 15 years of service to civilian status would result in a net cost to the federal government during the initial 5-year estimation period, it agrees that annual savings of millions of dollars would continue to grow as new entrants continue to be hired at a lower cost than PHS Corps recruits.

Federal Personnel: Public Health Service Commissioned Corps Officers’ Health Care for Native Americans (GAO/GGD-97-111BR, Aug. 27, 1997).
Federal Personnel: Issues on the Need for the Public Health Service's Commissioned Corps (GAO/GGD-96-55, May 7, 1996).

Contact: L. Nye Stevens, (202) 512-8676

## **Reduce U.S. Overseas Presence**

The Department of State maintains a physical presence in the form of embassies in over 160 countries, usually in the capital city, and consulates general, consulates, and other offices in the capital or other cities. About 18,000 U.S. direct-hire employees (over 5,500 from State and 12,000 from other agencies) work overseas at a total of more than 250 diplomatic posts. In addition, the U.S. direct-hire staffing levels have increased over the years, most notably in the nonforeign affairs agencies. The U.S. government also employs over 30,000 locally hired and contract staff at its diplomatic posts. U.S. embassies have become bases to at least 27 other U.S. government agencies involved in more than 300 activities.

Security requirements and the increasing costs of diplomacy are directly linked to the size of the overseas workforce. Moreover, U.S. foreign policy needs, which have changed dramatically with the end of the cold war, call into question whether the current overseas post and staff structure is appropriate. By reducing the number of Americans at posts where U.S. interests are of lesser importance, consolidating functions, or using regional embassies in certain regions, State could reduce its security requirements and enhance the safety of Americans overseas. In addition to security concerns, the costs of maintaining Americans overseas are high. It costs over $200,000 annually to station an American overseas, which is about two times as much as for Washington-based staff. Congress could consider reducing U.S. overseas presence by systematically reevaluating overseas staffing requirements.

In coordination with the numerous other agencies operating overseas, State needs to systematically reevaluate its overseas staffing requirements and the alternatives to stationing large numbers of Americans overseas.

State Department: Major Management Challenges and Program Risks (GAO/T-NSIAD/AIMD-99-99, Mar. 4, 1999).
Foreign Affairs Management: Major Challenges Facing the Department of State (GAO/T-NSIAD-98-251, Sept. 17, 1998).
Overseas Presence: Staffing at U.S. Diplomatic Posts (GAO/NSIAD-95-50FS, Dec. 28, 1994).
State Department: Overseas Staffing Processes Not Linked to Policy Priorities (GAO/NSIAD-94-228, Sept. 20, 1994).

Contact: Benjamin F. Nelson, (202) 512-4128

## Reassess International Broadcasting Programs

The United States broadcasts over 2,000 hours of radio programming in over 60 languages and over 200 hours of television in several languages weekly to support U.S. foreign policy objectives. In fiscal year 1999, $384.4 million of the U.S. Information Agency's budget supported the Voice of America (VOA)(53 languages), Radio Free Europe/Radio Liberty (RFE/RL)(27 languages), Radio and TV Marti broadcasts to Cuba, Radio Free Asia (RFA) (9 languages), and Worldnet television broadcasts. VOA, RFE/RL, and RFA have different purposes and therefore broadcast in some of the same languages. VOA's mission is to provide accurate and objective world news and present a balanced portrayal of U.S. institutions and policies. In contrast, RFE/RL's and RFA's mission is to present accurate news about political, social, and economic developments within the countries themselves in the absence of fully functional or free media.

Funding for international broadcasting has dropped considerably since fiscal year 1994 as VOA and RFE/RL consolidated functions such as engineering, eliminated overlapping broadcast hours to the same target audience, and cut 1,500 positions. Further savings would require changes in the number of language services and/or broadcast hours. Over the years, very few services have been terminated despite changing world conditions. The Broadcasting Board of Governors plans to review all language services and broadcast entities to determine their continued need and effectiveness. These reviews may identify less necessary services that could be eliminated.

U.S. Information Agency: Options for Addressing Possible Budget Reductions (GAO/NSIAD-96-179, Sept. 23, 1996).
International Broadcasting: Downsizing and Relocating Radio Free Europe/Radio Liberty (GAO/NSIAD-95-53, Apr. 5, 1995).
Voice of America: Station Modernization Projects Need to Be Justified (GAO/NSIAD-94-69, Jan. 24, 1994).
Voice of America: Management Actions Needed to Adjust to a Changing Environment (GAO/NSIAD-92-150, July 24, 1992).

Contact: Benjamin F. Nelson, (202) 512-4128

**Eliminate U.S. Contributions Towards Administrative Costs in Rogue States**

The United Nations Development Program funds projects in countries that are legislatively prohibited from receiving U.S. funding, under section 307 of the Foreign Assistance Act of 1961, as amended. The list of countries varies over time, but has included Afghanistan, Burma, Cuba, Iran, Iraq, Libya, Serbia, and Syria. To comply with the legislation, the Department of State withholds from its contribution to the United Nations Development Program the U.S. share of funding for projects in these states. However, State does not withhold administrative expenditures associated with the operation of field offices in these countries. Consequently a portion of the U.S. contribution still goes to countries prohibited from receiving U.S. funds. In 1998, the U.S. share for the United Nations Development Program's administrative costs in rogue states was about $1 million.

State has indicated that it would not, as a matter of policy, withhold U.S. contributions to the United Nations Development Program for administrative expenses in these countries because it believes this legislative restriction invites politicization and contradicts the principle of universality for participation in UN organizations.

Congress may wish to consider requiring the State Department to include field office administrative costs when calculating the amount of U.S. withholdings for the United Nations Development Program.

International Organizations: U.S. Participation in the United Nations Development Program (GAO/NSIAD-97-8, Apr. 1997).

Contact: Benjamin F. Nelson, (202) 512-4128

## Reform Medicare Incentive Payments

The Medicare Incentive Payment program was established in 1987 amid concerns that low Medicare reimbursement rates for primary care services cause access problems for Medicare beneficiaries in underserved areas. The program pays physicians a 10-percent bonus payment for Medicare services they provide in areas identified by the Department of Health and Human Services as having a shortage of primary care physicians. In 1997, bonus payments paid from the Medicare Supplemental Medical Insurance trust found amounted to over $90 million.

This program, however, may not be the most appropriate means of addressing medical underservice:

- The need for this program may have changed; since 1987 the Congress generally increased reimbursement rates for primary care services and reduced the geographic variation in physician reimbursement rates. In addition, recent surveys of Medicare beneficiaries who have access problems, including those who may live in underserved areas, generally cite reasons other than the unavailability of a physician—such as the cost of services not paid by Medicare—for their access problems.
- The relatively small bonus payments most physicians receive—a median payment of $341 for the year in 1996—are unlikely to have a significant impact on physician recruitment and retention.
- Specialists receive most of the program dollars, even though primary care physicians have been identified as being in short supply, while shortages of specialists, if any, have not been determined.
- The program provides no incentives or assurances that physicians receiving bonuses will actually treat people who have problems obtaining health care.
- Health Care Financing Administration oversight of the program also has limitations that allow physicians and other providers to receive and retain bonus payments claimed in error.

The Department has acknowledged problems in the program and agrees that making incentive payments to specialists in urban areas appears to be unnecessary. The Department has stated that it is clear that certain structural changes to this program are necessary to better target incentive payments to rural areas with the highest degree of shortage.

If the Congress determines that this program is not an appropriate vehicle for addressing medical underservice, then termination is a reasonable option. However, if it is decided to continue the program, then the Congress could consider reforms that clarify the program's intent and better structure the program to link limited federal funds to intended outcomes. For example, if the program's intent is to improve access to primary care services in underserved rural areas, the bonus payments should be limited to physicians providing primary care services to underserved populations in rural areas with the greatest need. Better targeting of the payments and evaluations would also be needed to provide assurances that the payments are achieving their intended outcomes.

Physician Shortage Areas: Medicare Incentive Payments Not an Effective Approach to Improve Access (GAO/HEHS-99-36, Feb. 26, 1999).

Contact: William J. Scanlon, (202) 512-7114

## Reassess Tactical Aircraft Programs

The Department of Defense (DOD) has various types of tactical aircraft, comprised of fighter aircraft that engage in air-to-air combat and attack aircraft that focus on air-to-ground combat. DOD plans to replace most of these aircraft through the development and procurement of the Navy's F/A-18E/F, the Air Force's F-22, and the multi-service Joint Strike Fighter. The Congressional Budget Office has estimated that the cost to develop and procure the currently planned quantities of these aircraft will exceed $350 billion. DOD's planned investments in tactical aircraft are significantly in excess of likely future budgets. In addition, certain questions have been raised regarding the need for, or cost benefit of, all these systems given the likely threat.

As the nation proceeds into the 21st century with the prospect of a flat defense budget, DOD's plan to modernize its tactical aircraft fleet will be a significant issue confronting the Congress. The Congress has recognized the imbalances between available funding and the services' wants and began to address this issue during its review of the administrations' FY 2000 appropriation request for funding for the F-22 program. The Congress and DOD will need to find ways to ensure that the services obtain the aircraft they need in sufficient quantities and capabilities to address the aging problem and perform their missions. The traditional practice of approving all requested programs and then reducing the number of aircraft to be procured within each of the programs reduces total program costs but exacerbates the fleet aging problem. Aircraft retained longer than planned increase operating and support costs and reduce funds available for modernization. The Congress and DOD face a difficult challenge in making the tactical aircraft funding decisions that will be required to balance DOD-wide needs and the wants of individual services.

Fiscal Year 2000 Budget: DOD's Procurement and RDT&E Programs (GAO/NSIAD-99-233R, Sept. 23, 1999).
Defense Acquisition: Progress of the F-22 and F/A-18E/F Engineering and Manufacturing Development Programs (GAO/T-NSIAD-99-113, Mar. 17, 1999).
F-22 Aircraft: Issues in Achieving Engineering and Manufacturing Development Goals (GAO/NSIAD-99-55, Mar. 15, 1999).
1999 DOD Budget: DOD's Procurement and RDT&E Programs (GAO/NSIAD-98-216R, Aug. 14, 1998).
F-22 Aircraft: Progress of the Engineering and Manufacturing Development Program (GAO/T-NSIAD-98-137, Mar. 25, 1998).
Navy Aviation: F/A-18E/F Development and Production Issues (GAO/NSIAD-98-61, Mar. 13, 1998).
F-22 Aircraft: Progress in Achieving Engineering and Manufacturing Development Goals (GAO/NSIAD-98-67, Mar. 10, 1998).
Defense Aircraft Investments: Major Program Commitments Based on Optimistic Budget Projections (GAO/T-NSIAD-97-103, Mar. 5, 1997).
Aircraft Acquisition: Affordability of DOD's Investment Strategy (GAO/NSIAD-97-88, Sept. 8, 1997).
F-22 Restructuring (GAO/NSIAD-97-100R, Feb. 28, 1997).
Navy Aviation: F/A-18E/F Will Provide Marginal Operational Improvement at High Cost (GAO/NSIAD-96-98, June 18, 1996).
Tactical Aircraft: Concurrency in Development and Production of F-22 Aircraft Should Be Reduced (GAO/NSIAD-95-59, Apr. 19, 1995).
Weapons Acquisition: Low-Rate Initial Production Used to Buy Weapon Systems Prematurely (GAO/NSIAD-95-18, Nov. 21, 1994).
Tactical Aircraft: F-15 Replacement Is Premature As Currently Planned (GAO/NSIAD-94-118, Mar. 25, 1994).

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## Reassess the Army's Comanche Helicopter Program

In 1983, the Army began the Comanche helicopter program with the intent of replacing the Vietnam-era scout helicopter. However, what started off as a replacement for Vietnam-era helicopters has changed over time to a high-technology light attack and reconnaissance helicopter. Since 1983, the program has been restructured five times and is still in development. The first four restructurings addressed concerns over affordability and changing requirements and led to reduced planned procurement quantities, delayed development and production decisions, and increased unit costs. Today, although the Army touts the Comanche as the quarterback of the digital battlefield—the centerpiece of its aviation modernization strategy—questions remain over the need for the program, in light of the capabilities of other equipment in the Army's aviation arsenal, and its affordability.

Some defense observers contend that unmanned aerial reconnaissance vehicles promise to enhance the fighting potential of the battlefield commander by providing immediate information about the scope and breadth of enemy troop positions and strength. A DOD-directed study to define the most effective way to link the Comanche with this emerging capability is still underway. Although light attack missions are part of the Army's plan for the Comanche, its lethality is now expected to rival or surpass that of the Apache—the Army's premiere attack helicopter. In addition, as the Army reduces its total helicopter fleet, it plans to increase the combat capabilities of the remaining fleet. For example, the Army is arming its scout helicopter, the Kiowa, and modifying 227 basic model Apaches with the Longbow system, which includes a fire control radar and a Hellfire missile. These actions, collectively, tend to blur the distinction in roles among the Army's helicopter fleet.

As the Army's concept for the Comanche grew over time, overall program costs have also grown. Total program cost is estimated at approximately $48 billion, with an estimated program unit cost of about $37 million. Other unresolved technical risks indicate that future cost growth is likely to increase. As development and production costs increase, the Comanche's share of the Army's overall aviation budget also increases. For example, the Comanche's share of the total projected Army aviation budget of $3.3 billion for fiscal year 2008 is expected to be about 64 percent, when its annual production costs would be over $2 billion. The Army's most recent aviation modernization plan recognizes that because of funding constraints, some modernization requirements must be traded off. As a result, older helicopters will have to be retained longer than originally planned, some helicopter upgrades will be forgone, and lower quantities of some helicopters will be procured.

Given real and probable development cost increases, questions about the role of the Comanche compared to other more affordable and capable Army helicopters, deferral of the production decision, and current and forecasted Army aviation budgets, the Congress may wish to reassess the costs and benefits of continuing the Comanche helicopter program.

Defense Acquisitions: Comanche Program Cost, Schedule, and Performance Status (GAO/NSIAD-99-146, Aug. 24, 1999).
Comanche Helicopter: Testing Needs To Be Completed Prior to Production Decisions (GAO/NSIAD-95-112, May 18, 1995).
Army Aviation: Modernization Strategy Needs To Be Reassessed (GAO/NSIAD-95-9, Nov. 21, 1994).
Comanche Helicopter: Program Needs Reassessment Due To Increased Unit Cost and Other Factors (GAO/NSIAD-92-204, May 27, 1992).

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## Close the Uniformed Services University of the Health Sciences

With the end of the draft in 1972, the military services needed new ways to obtain active duty physicians. To address this need, Public Law 92-426 established two complementary programs; the Health Profession Scholarship Program and the Uniformed Services University of the Health Sciences (USUHS), a medical school operated by the Department of Defense (DOD).

Under the scholarship program, DOD pays tuition and fees plus a monthly stipend for students enrolled in civilian medical schools. In return, the students incur an obligation to serve a year of active duty for each year of benefits received, with a 2-year minimum obligation. Upon graduation, most scholarship program participants go on active duty and begin graduate medical education (GME) in military hospitals. Students at USUHS enter active military service as medical students, receive the pay and benefits of officers at the 0-1 level, and incur 7-year service obligations. Overall, USUHS graduates represent about 14 percent of military physicians on active duty.

In the 2-1/2 decades since its legislative establishment, proposals have been made to close USUHS. Those who propose closing the University assert that DOD’s need for physicians can be met at a lower cost using physicians educated at civilian medical schools under the DOD scholarship program. USUHS is a more costly source of military physicians on a per graduate basis when DOD’s and total federal costs are considered. With DOD education and retention costs of about $3.3 million over the course of a physician’s career, the cost of a University graduate is more than 2 times greater than the $1.5 million cost for a scholarship program graduate. However, the annual costs of USUHS graduates ($182,000) are comparable to scholarship graduates ($181,000) when total federal costs are amortized over the expected years of military service. USUHS graduates are expected to have longer military careers and the University receives less non-DOD federal support than civilian medical schools. USUHS graduates are expected to serve for about 18.5 years, on average, while scholarship program physicians serve for 9.8 years, on average.

Those who propose retaining the University assert that it is needed to provide a stable cadre of physicians trained to meet the unique demands of military medicine. USUHS provides a medical education that compares well with that of other U. S. medical schools. However, while USUHS graduates begin their military medical careers with more readiness training than their peers, the significance of the additional training is unclear.

In addition, to help meet standards required for accreditation as an academic institution, USUHS provides education and training for other health care and related professions and engages in research, consultation, and archival activities. While these activities do not directly contribute to the education of military physicians, they do involve USUHS faculty and staff, and University officials believe that DOD would continue to conduct these activities even if USUHS is closed. USUHS officials estimated the value of these activities to be about $18.6 million.

Given the changes in operational scenarios and DOD’s approach for delivering peacetime health care, new assessments of the military’s physician needs and the means to acquire and retain physicians are in order. If DOD continues to need a cadre of experienced career physicians, alternative strategies such as an additional scholarship option with a longer service obligation (i.e. 2-years for each year of benefits received), could be considered as a potentially less expensive way to increase the length of selected military physicians’ careers.

Military Physicians: DOD’s Medical School and Scholarship Program (GAO/HEHS-95-244, Sept. 29, 1995).

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**Rightsize DOD's Health System for Active Duty and Dependent Care**

DOD's $16 billion dollar medical system was established to ensure that active duty members and their families receive health care for force readiness purposes, and such beneficiaries once predominated in the system. Today, however, military retirees outnumber active duty members and their families among the system's 8.2 million beneficiaries, and the relative number of retirees in the system will likely increase in coming years. Accordingly, the system's readiness mission may be competing for scarce dollars and medical staff with, and giving way to, an emerging peacetime emphasis on treating elderly patients with more chronic health problems, including geriatric and cardiopulmonary problems.

Contributing to this shift in emphasis has been the substantial active duty downsizing that began with the ending of the cold war. Many bases that housed medical facilities were deemed unnecessary, but service rivalries and political differences made closures extremely difficult. As a result, the Congress convened independent commissions that recommended closing or reconfiguring hundreds of installations. DOD estimated that completing the actions would result in a 35 percent reduction in military and civilian personnel, from the 1990 level, and over $5.5 billion dollars a year in operating costs. Meanwhile, overall medical personnel reductions have lagged behind due to service disagreements over targeted end-strength levels. The department and the services maintain that they need providers and support at their facilities not only for active duty personnel and their dependents, but also for retirees and their dependents. The latter category of patients, they contend, provide vital training for military providers not normally available from the younger, healthier active duty force. Also, the department and the services are heavily committed to care for their retired comrades-in-arms even though such care is not required by law and many of these retirees are eligible for care through the Department of Veterans Affairs health care system.

One option to rightsize DOD's health system for active duty and dependent care is to totally refocus DOD's health system on its basic readiness mission. Access would be restricted to active duty members and their families; facilities and staff allocations not needed for that purpose would be eliminated; and treatment to military retirees would be provided through the Federal Employees Health Benefits Plan (FEHBP). To ensure sufficient readiness training for military providers under the new system – and thus assure its ability to achieve its primary mission -- DOD may need to develop closer affiliations with civilian hospitals, for example, for trauma center assignments, and with medical schools and universities much like the Department of Veterans Affairs has successfully done. Also, offering retirees FEHBP would, in effect, transfer health care costs from DOD to them in the form of premiums and co-payments. In exchange, however, such retirees would enjoy greater care choices, lifelong uninterrupted health care reliability, and membership in one of the nation's premier health care programs. Savings from significantly reduced facility operating costs and managed care contract cost avoidance would be applied to DOD's share of retirees' FEHBP premiums.

Medicare Subvention Demonstration: DOD Data Limitations May Require Adjustments And Raise Broader Concerns (GAO/HEHS-99-39, May 1999).
Defense Health Care: Collaboration And Criteria Needed For Sizing Graduate Medical Education (GAO/HEHS-98-121, Apr. 1998).
Military Retirees' Health Care: Costs And Other Implications Of Options To Enhance Older Retirees' Benefits (GAO/HEHS-97-134, June 1997).
Defense Health Care: Limits To Older Retirees' Access To Care And Proposals For Change (GAO/T-HEHS-97-84, Feb. 1997).
Defense Health Care: Issues And Challenges Confronting Military Medicine (GAO/HEHS-95-104, Mar. 1995).

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## Reassess the Need for the Selective Service System

No one has been drafted since 1973 and the advent of the all-volunteer force. Since 1980, after the Soviet invasion of Afghanistan, males between the ages of 18 and 26 have continued registering with the Selective Service System for a potential draft in the event a national emergency occurs. However, it would still require congressional action to actually draft men into the military. A return to a military draft seems unlikely even under the current recruiting difficulties the military services are facing. One reason for this is that the recruiting shortfalls represent only a minute percentage of the over 13 million males of draft age and it would be very difficult to ensure a fair and equitable draft to cover such shortfalls. The likelihood of the United States engaging in a manpower-intensive conflict in the future is very remote, so alternative approaches to a draft could be devised to fill personnel needs.

Supporters of continuing registration maintain that it is a relatively inexpensive insurance policy in case the government underestimates the threat level the U.S. military may face in a future contingency. Supporters also contend that registration maintains the link between the military and society-at-large and reinforces the notion that citizenship involves an obligation to the nation. They also maintain that it would ensure a fair and equitable draft if it needed to be reinstated in the future. Nevertheless, it was estimated in 1997 that it would take a little more than a year and cost about $23 million (or about 1 year's appropriation) to bring the Selective Service System back from a "deep standby" status.

Selective Service: Cost and Implications of Two Alternatives to the Present System (GAO/NSIAD-97-225, Sept. 10, 1997).

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**Revise the Mining Law of 1872**

The Mining Law of 1872 allows holders of economically minable claims on federal lands to obtain all rights and interests to both the land and the hardrock minerals by patenting the claims for $2.50 or $5.00 an acre—amounts that do not necessarily reflect the market value of such lands today. Since 1872, the federal government has patented more than 3 million acres of mining claims (an area about the size of Connecticut), and some patent holders have reaped huge profits by reselling their lands. For example, land that had been appraised at between $14.4 million and $47.1 million in 1988 would have generated only about $16,000 for the federal government in 1989 if the claims were patented. Furthermore, miners do not pay royalties to the government on hardrock minerals they extract from federal lands. In 1990, hardrock minerals worth at least $1.2 billion were extracted from federal lands, while known and economically recoverable reserves of hardrock minerals remaining on federal lands were estimated to be worth almost $64.9 billion.

Among the options that are available are to prohibit the issuance of new patents, require the payment of fair market value for a patent, or otherwise modify the requirements for patenting. Legislation could also be enacted to impose royalties on hardrock minerals extracted from federal lands.

Mineral Royalties: Royalties in the Western States and in Major Mineral-Producing Countries (GAO/RCED-93-109, Mar. 29, 1993).
Natural Resources Management Issues (GAO/OCG-93-17TR, Dec. 1992).
Mineral Resources: Value of Hardrock Minerals Extracted From and Remaining on Federal Lands (GAO/RCED-92-192, Aug. 24, 1992).
Federal Land Management: The Mining Law of 1892 Needs Revision (GAO/RCED-89-72, Mar. 10, 1989).

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## Eliminate Cargo Preference Laws to Reduce Federal Agencies' Transportation Costs

Cargo preference laws require that certain government-owned or -financed cargo shipped internationally be carried on U.S.-flagged vessels. This guarantees a minimum amount of business for the U.S. merchant fleet. This also promotes other sectors of the maritime industry because U.S.-flagged vessels are required by law to be crewed by U.S. mariners, are generally required to be built in U.S. shipyards, and are encouraged to be maintained and repaired in U.S. shipyards. In addition, U.S.-flagged carriers commit to providing capacity in times of national emergencies.

The effect of cargo preference laws on the U.S. merchant marine industry is mixed. On one hand, the share of international ocean-borne cargo carried by U.S. vessels has declined despite cargo preference laws because most ocean-borne international cargo is not subject to cargo preference laws. On the other hand, these laws appear to have a substantial impact on the U.S. merchant marine industry by providing incentive for vessels to remain in the U.S. fleet.

However, because U.S.-flagged vessels often charge higher rates to transport cargo than foreign-flagged vessels, cargo preference laws increase the government's transportation costs. For fiscal years 1989 through 1993, four federal agencies—the Departments of Defense, Agriculture, and Energy, and the Agency for International Development—were responsible for more than 99 percent, by tonnage, of government cargo subject to cargo preference laws. Cargo preference laws increased these federal agencies' transportation costs by an estimated $578 million per year in fiscal years 1989 through 1993 over cost of using foreign-flagged vessels. The average was about $710 million per year when the costs associated with the Persian Gulf War were included. Eliminating cargo preference laws would produce budgetary savings for the federal government.

Management Reform: Implementation of the National Performance Review's Recommendations (GAO/OCG-95-1, Dec. 5, 1994).
Maritime Industry: Cargo Preference Laws—Their Estimated Costs and Effects (GAO/RCED-95-34, Nov. 30, 1994).
Cargo Preference: Effects of U.S. Export-Import Cargo Preference Laws on Exporters (GAO/GGD-95-2BR, Oct.31, 1994).
Cargo Preference Requirements: Objectives Not Significantly Advanced When Used in U.S. Food Aid Programs (GAO/GGD-94-215, Sept. 29, 1994).

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**Reassess the Justification and Affordability of Coast Guard's Deepwater Project**

The Coast Guard's justification for its Deepwater Project—potentially the largest acquisition project in the agency's history—does not accurately or fully depict the need to replace or modernize its fleet of deepwater ships and aircraft. Proceeding without key data increases the risk that contractors will develop alternatives that are not the most cost-effective to meet the needs of the agency. In addition, the agency's initial estimate that the project may cost $9.8 billion, or about $500 million annually over 20 years, would consume more than the agency now spends for all capital projects and leave little funding for other critical capital needs.

Unless the Congress grants additional funds, the Coast Guard's other capital projects could be severely affected. To address concerns about the justification and affordability of the project, the Coast Guard should develop a realistic estimate of the Coast Guard's needs, based on capabilities of its current fleet of ships and aircraft, that are affordable within planned budget limits.

Coast Guard: Strategies for Procuring New Ships, Aircraft, and Other Assets (GAO/T-RCED-99-116, Mar. 16, 1999).
Coast Guard: Key Budget Issues for Fiscal Years 1999 and 2000 (GAO/T-RCED-99-83, Feb. 11, 1999).
Coast Guard's Acquisition Management: Deepwater Project's Justification and Affordability Need to Be Addressed More Thoroughly (GAO/RCED-99-6, Oct. 26, 1998).

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## Discontinue VA's Compensation for Disabilities Unrelated to Military Service

In fiscal year 1998, the Department of Veterans Affairs (VA) paid about $17 billion in compensation to about 2.2 million veterans for service-connected disabilities. A disease or injury resulting in disability is considered service-connected if it was incurred or aggravated during military service. No causal connection is required. In 1989, GAO reported on the U.S. practice of compensating veterans for conditions that were probably neither caused nor aggravated by military service. These conditions included diabetes, chronic obstructive pulmonary disease, arteriosclerotic heart disease, and multiple sclerosis. In 1993, GAO reported that other countries were less likely to compensate veterans when diseases are unrelated to military service, when the relationship of the disease to military service could not be established, or for off-duty injuries such as those that happen while on vacation.

The Congress may wish to reconsider whether diseases neither caused nor aggravated by military service should be compensated as service-connected disabilities. In 1996, the Congressional Budget Office (CBO) reported that about 230,000 veterans were receiving about $1.1 billion in disability compensation payments annually for diseases neither caused nor aggravated by military service. If disability compensation payments to veterans with nonservice connected, disease-related disabilities were eliminated in future cases, CBO estimates that about $250 million could be saved over the next five years.

VA Disability Compensation: Disability Ratings May Not Reflect Veterans' Economic Losses (GAO/HEHS-97-9, Jan. 7, 1997).
Disabled Veterans Programs: U.S. Eligibility and Benefit Types Compared With Five Other Countries (GAO/HRD-94-6, Nov. 24, 1993).
VA Benefits: Law Allows Compensation for Disabilities Unrelated to Military Service (GAO/HRD-89-60, July 31, 1989).

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## Revise VA's Disability Ratings Schedule to Better Reflect Veterans' Economic Losses

The Department of Veterans Affairs' (VA) disability program is required by law to compensate veterans for the average loss in earning capacity in civilian occupations that results from injuries or conditions incurred or aggravated during military service. Veterans with such service-connected disabilities are entitled to monthly cash benefits under this program even if they are working and regardless of the amount they earn. The amount of compensation received is based on disability ratings that VA assigns to the service-connected conditions. In fiscal year 1998, VA paid about $17 billion in compensation to about 2.2 million veterans for these service-connected disabilities. The disability ratings schedules that VA currently uses are still primarily based on physicians' and lawyers' judgments made in 1945 about the effect service-connected conditions had on the average individual's ability to perform jobs requiring manual or physical labor. Although the ratings in the schedule have not changed substantially since 1945, dramatic changes have occurred in the labor market and in society since then. The results of an economic validation of the schedule conducted in the late 1960s indicated that ratings for many conditions did not reflect the actual average loss in earnings associated with them. Therefore, it is likely that some of the ratings in the schedule do not reflect the economic loss experienced by veterans today. Hence, the schedule may not equitably distribute compensation funds among disabled veterans.

The Congress may wish to consider directing VA to determine whether the ratings for conditions in the schedule correspond to veterans' average loss in earnings due to these conditions and adjust disability ratings accordingly. Generally accepted and widely used approaches exist to statistically estimate the effect of specific service-connected conditions on veterans' average earnings. These estimates could be used to set disability ratings in the schedule that are appropriate in today's socioeconomic environment. It could cost between $5 million and $10 million to collect the data that produce these estimates, which would be a small fraction of the over $17 billion VA pays in disability compensation to veterans annually. In addition, VA estimates that the future liability for disability compensation to be over $570 billion.

<u>VA Disability Compensation: Disability Ratings May Not Reflect Veterans' Economic Losses</u> (GAO/HEHS-97-9, Jan. 7, 1997).

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**Repeal the Partial Exemption for Alcohol Fuels from Excise Taxes on Motor Fuels**

The tax code partially exempts biomass-derived alcohol fuels—made from nonfossil material of biological origin—from excise taxes on motor fuels. The tax code also provides that income tax credits for alcohol fuel use may be claimed instead of the excise tax exemption. However, the credit is in almost all cases less valuable than the exemption and is rarely used.

Tax incentives that encourage alternatives to fossil fuels might have merit if energy security or environmental benefits were realized. However, if alcohol fuel use was not subsidized it is unlikely that U.S. energy security or air quality would be significantly affected. Even with tax subsidies, alcohol fuels are not a cost-effective alternative to fossil fuels. In 1995, alcohol fuels accounted for less than 1 percent of total U.S. energy consumption. The incentives have not created enough usage to affect the likelihood of an oil price shock. Nor could their use be expanded enough to counter such a shock given existing production technologies. Use of oxygenated fuels such as ethanol-gasoline mixtures in motor vehicles generally produces less carbon monoxide pollution than does straight gasoline. However, the Clean Air Act Amendments of 1990 reduced the need for an ethanol subsidy by mandating the minimum oxygen content of gasoline in areas with poor air quality. The global warming effects of using ethanol are likely to be no better than, and could be worse than, those of gasoline.

According to Congressional Budget Office (CBO) estimates, repealing the partial excise tax exemption and the alcohol fuels tax credit would raise $2.4 billion in revenues over 5 years. CBO notes that the repeal could result in higher federal outlays for price support loan programs, but that any increase in outlays probably would be much smaller than the estimated revenue increase. The tax incentives are scheduled to expire at the end of fiscal year 2000.

Tax Policy: Effects of the Alcohol Fuels Tax Incentives (GAO/GGD-97-41, Mar. 6, 1997).

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**Review the Design of the Research Tax Credit**

In 1981, Congress created the research tax credit to encourage businesses to do more research. Originally, taxpayers could receive a credit only for qualified research that exceeded a base amount. In 1995, there was evidence indicating that the incentive provided by the credit was eroding, and that the revenue cost of the additional spending stimulated by the credit was increasing. In 1996 Congress added an alternative credit computation method for taxpayers that could not earn a credit under the regular computation method. However, this change did not address the apparent increasing cost of the credit (per dollar of research).

The method for computing base spending for the credit could be reviewed periodically and adjusted so that (1) less of the credit would be earned for research that businesses would have undertaken anyway, and (2) a larger number of businesses would receive an effective incentive. Such an adjustment would result in more research being stimulated per dollar of revenue cost.

The credit was originally enacted on a temporary basis and has never been made permanent. However, renewals of the credit have been so regular that it has been in effect almost continuously since 1981. The credit most recently expired in June 1999. Efforts are currently underway in Congress to renew the credit again.

Tax Policy: Additional Information on the Research Tax Credit (GAO/T-GGD-95-161, May 10, 1995).

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**Develop Criteria for Determining When Weed and Seed Sites Are Self-Sustaining**

Weed and Seed is a community-based, multi-agency program that proposes to "weed out" crime from targeted neighborhoods, then "seed" the site with a variety of programs and resources to prevent crime from recurring. Interested communities can apply for a Weed and Seed grant, with the expectation and goal that they become self-sustaining by leveraging additional resources from non-program sources. Although many grantees have received funding for several years, the program has not reduced or withdrawn any Weed and Seed grantee's funds because of the site's progress toward becoming self-sustaining.

In order to promote self-sufficiency, the program could develop criteria for determining when sites are self-sustaining and when to reduce or withdraw program funding. Achieving self-sufficiency could reduce overall program funding levels.

Federal Grants: More Can Be Done to Improve Weed and Seed Program Management (GAO/GGD-99-110, July 16, 1999).

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**Charging User Fees for Food-Related Inspection and Testing Services**

The United States Department of Agriculture (USDA) recovers through user fees only about $400 million of the $1.6 billion it spends annually to inspect, test, grade, and approve agricultural commodities and products. USDA's appropriations fund the remaining 75 percent of its expenses. In general, USDA charged user fees only to beneficiaries of premarket reviews, such as the grading of grain and other commodities for quality. USDA generally does not charge user fees for (1) compliance inspections of meat, poultry, domestic foods and processing facilities to ensure adherence to safety regulations, (2) import inspections and export certifications to ensure that food products in international trade meet specified standards, and (3) standards setting and other support services essential to these functions. OMB Circular A-25, User Charges, states that user fees should be charged to cover the full cost of federal services when the service recipient receives special benefits beyond those received by the general public. USDA's Food Safety and Inspection Service (FSIS) provides a special benefit to meat and poultry slaughter and processing plants that incidentally benefits the general public. The Congressional Budget Office estimated that FSIS could reduce outlays by $269 million in the first fiscal year that user fees are charged, rising to $545 million in subsequent fiscal years. Overall, USDA could recover an additional $700 million each year from the beneficiaries of food-related inspection and testing services through user fees.

Congress could consider directing USDA to charge user fees to the beneficiaries of its services. Alternatively, for meat and poultry inspections, legislative changes could make the industry responsible for ensuring the safety and quality of its products and FSIS responsible for overseeing industry inspection procedures.

Food Safety: Opportunities to Redirect Federal Resources and Funds Can Enhance Effectiveness (GAO/RCED-98-224, Aug. 6, 1998).
Food-Related Services: Opportunities Exist to Recover Costs by Charging Beneficiaries (GAO/RCED-97-57, Mar. 20, 1997).
Food Safety and Quality: Uniform Risk-based Inspection System Needed to Ensure Safe Food Supply (GAO/RCED-92-152, June 26, 1992).

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## Revise Eligibility Determinations for FEMA Public Assistance

The Federal Emergency Management Agency's (FEMA) Public Assistance Program helps pay state and local governments' costs of repairing and replacing eligible public facilities and equipment damaged by natural disasters. Many private nonprofit organizations, such as schools, hospitals, and utilities are also eligible for assistance. Over the years, regulations and policies implementing legislation under the program reflect an increasingly expansive approach to federal disaster assistance. The cost of the program has increased dramatically in recent years, but a number of options identified by program officials in FEMA's 10 regional offices, if implemented, could reduce program costs. Among the options recommended most strongly were placing limits on the appeals process; eliminating eligibility for some facilities that generate revenue, lack required insurance, or are not delivering government services; and limiting the impact of codes and standards (e.g., upgrade only disaster-damage portions of structures, better define who has the authority to adopt and approve codes and standards, and limit the time period for adopting new codes). FEMA has taken action to address some of these options. For example, FEMA has reduced the number of appeals for program decisions from three to two, it has clarified certain policies and criteria to make eligibility determinations less subjective, and work is continuing on the applicability of building codes and standards for upgrades. However, FEMA has not addressed some other identified options, such as eliminating eligibility for all private nonprofit organizations—many of which are revenue-generating facilities such as utilities, hospitals, and universities—or eliminating funding for publicly-owned recreational facilities (e.g., boat docks, piers, golf courses, etc.) which generate portions of their operational revenue through user fees, rents, admission charges, or similar fees.

Although increased disaster activity is a factor in rising program costs, changes in the amount and types of assistance provided and recipients eligible for assistance have also been a factor. Revising eligibility of these types of facilities for assistance funding could reduce program costs. To improve the efficiency of the program, the Congress could direct FEMA to continue its efforts to issue criteria that more clearly and comprehensively identify what facilities and work are eligible for public assistance and develop a system for disseminating these criteria and future changes in the criteria to FEMA regional staff. In addition, the Director of FEMA should continue to determine which options identified by FEMA regional staff should be implemented and then take action to implement these options, including, if necessary, by proposing changes to the legislation and/or FEMA's regulations.

Disaster Assistance: Information on Federal Costs and Approaches for Reducing Them (GAO/T-RCED-98-139, Mar. 26, 1998).
Disaster Assistance: Improvements Needed in Determining Eligibility for Public Assistance (GAO/RCED-96-113, May 23, 1996).
Disaster Assistance: Improvements Needed in Determining Eligibility for Public Assistance (GAO/T-RCED-96-166, Apr. 30, 1996).

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**Eliminate the Flood Insurance Subsidy on Pre-Flood Insurance Rate Map Structures**

The National Flood Insurance Program is not actuarially sound because about a third of the 4.1 million policies in force are subsidized. Federal Insurance Administration officials estimate that total premium income from subsidized policyholders is currently about $500 million less than it would be if these rates had been actuarially based and participation had remained the same. According to a Federal Insurance Administration official, insurance rates on currently subsidized policies would need to rise, on average, slightly more than twofold (an annual average premium of about $1,300). Significant rate increases for subsidized policies, including charging actuarial rates, would likely cause some pre-Flood Insurance Rate Map (FIRM) property owners to cancel their flood insurance. However, if owners of pre-FIRM structures, which suffer the greatest flood loss, canceled their insurance because they were no longer subsidized, the federal government would likely face increased costs, as the result of future floods, in the form of low-interest loans from the Small Business Administration or grants from FEMA. Thus, the effect on total federal disaster assistance costs of phasing out subsidized rates would depend on the number of the program's current policyholders who would cancel their policies. Thus, it is difficult to estimate if the increased costs of other federal disaster relief programs would be less than, or more than, the cost of the program's current subsidy.

FEMA should consider eliminating the National Flood Insurance Program's subsidy on structures built before flood insurance rate maps (FIRMs) were prepared.

Flood Insurance: Information on Financial Aspects of the National Flood Insurance Program (GAO/T-RCED-99-280, Aug. 25, 1999).

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**Eliminate Flood Insurance For Certain Repeatedly Flooded Properties**

Repetitive flood losses is one of the major factors contributing to the financial difficulties facing the National Flood Insurance Program. A repetitive-loss property is one that has two or more losses greater than $1,000 each within any 10-year period. Approximately 43,000 buildings currently insured under the National Flood Insurance Program have been flooded on more than one occasion and have received flood insurance claims payments of $1,000 or more for each loss. These repetitive losses account for about 36 percent of all program claims historically (currently about $200 million annually) even though repetitive-loss structures make up a very small portion of the total number of insured properties—at any one time between 1 to 2 percent. The cost of these multiple-loss properties over the years to the program has been $2 billion. Under its repetitive-loss strategy, the Federal Insurance Administration intends to target for mitigation the most flood-prone repetitive-loss properties, such as those that are currently insured and have had four or more losses, by acquiring, relocating or elevating them. These properties (about 10,000) are responsible for at least $65 million of the $200 million in insurance claims estimated to be paid annually for repetitive-loss properties. Moreover, because these properties were generally built before the National Flood Insurance Program was established, policyholders pay premiums that are substantially less than full risk properties.

One option that would increase savings would be for FEMA to consider eliminating flood insurance for certain repeatedly flooded properties.

Flood Insurance: Information on Financial Aspects of the National Flood Insurance Program (GAO/T-RCED-00-23, Oct. 27, 1999).

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## Target Funding Reductions in Formula Grant Programs

Many federal grant programs with formula-based distribution of funds to state and local governments are not well targeted to jurisdictions with high programmatic needs but comparatively low funding capacity. As a result, it is not uncommon that program recipients in areas with greater wealth and relatively lower needs may enjoy a higher level of services than that which is available in harder pressed areas. Alternatively, these wealthier areas can provide the same level of services but at lower tax rates than harder pressed areas.

At a time when federal discretionary resources are increasingly constrained, better targeting of formula-based grant awards offers a strategy to bring down federal outlays by concentrating reductions in wealthier localities with comparatively fewer needs and greater capacity to absorb the cuts. At the same time, redesigned formulas could hold harmless the hardest pressed areas that are most vulnerable. For example:

**Entitlement Programs**
Three programs—Medicare, Foster Care, and Adoption Assistance—reimburse approximately 55 percent of eligible state spending with the federal share ranging from a minimum of 50 to a maximum of 83 percent depending on the per capita income of the state. There are a variety of options in which budgetary savings could be achieved to improve the targeting of these programs, including:

- reduce the minimum federal reimbursement rate to below 50 percent, or
- reduce federal reimbursement rates only for those states with comparatively low program needs and comparatively strong tax bases.

Under the first option, the burden of the reduced federal share would be focused on those states with the highest per capita income. To the extent that per capita income provides a reasonable basis for comparing state tax bases, this option would require states with the strongest tax bases to shoulder the burden of a reduced federal share.

Under the second option, the matching formula could be revised to better reflect the relative number of people in need, geographic differences in the cost of services, and state tax bases. Under the revised formula, states with comparatively low need and strong tax bases would receive lower federal reimbursement rates while states with high needs and weak tax bases would continue to receive their current reimbursement percentage. This option would focus the burden of a reduced federal share in those states with the lowest need and the strongest ability to fund program services from state resources.

**Non-Entitlement Formula-based Programs**
Many other formulas used to distribute federal grant funding do not recognize the differential fiscal capacities of states to provide benefits from their own resources. Moreover, many of these formulas have not been reassessed for years or even decades. One option that would realize budgetary savings in programs such as these would be to revise the funding formula to reflect the strength of state tax bases. A new formula could be calibrated so that funding is maintained in states or local governments with weak tax bases, to maintain needed program services, but reduced in high tax base states, to realize budgetary savings. Examples of these types of formula grant programs include the following.

- Federal Aid Highways: This program, the largest non-entitlement formula grant program, allocates funds among the states based on their historic share of funding. This approach reflects antiquated indicators of highway needs, such as postal road miles and the land area of the state.

- Title III, Older Americans Act: This program is intended to address the needs of individuals with high economic and social needs, yet the funding formula allots funding based on all elderly, regardless of their needs.

- Community Development Block Grant: This program allocates funds among local governments based on housing age and condition, population, and poverty, and does not include a factor recognizing local wealth or fiscal capacity. For instance, even though the poverty rate in Bridgeport, Connecticut, is over 20 percent of the local population compared to only 3 percent for Greenwich, Connecticut, Greenwich receives over three times more block grant funds per person in poverty than Bridgeport. This disparity is due to the formula's recognition of older housing stock and population and its exclusion of fiscal capacity indicators.

Formula Grants: Effects of Adjusted Population Counts on Federal Funding to States (GAO/HEHS-99-69, Feb. 26, 1999).
Medicaid Formula: Effects of Proposed Formula on Federal Shares of State Spending (GAO/HEHS-99-29R, Feb. 19, 1999).
Welfare Reform: Early Fiscal Effect of the TANF Block Grant (GAO/AIMD-98-137, Aug. 22, 1998).
Public Housing Subsidies: Revisions to HUD's Performance Funding System Could Improve Adequacy of Funding (GAO/RCED-98-174, June 19,1998).
School Finance: State Efforts to Equalize Funding Between Wealthy and Poor School Districts (GAO/HEHS-98-92, June 16, 1998).
School Finance: State and Federal Efforts to Target Poor Students (GAO/HEHS-98-36, Jan. 28, 1998).
School Finance: State Efforts to Reduce Funding Gaps Between Poor and Wealthy Districts (GAO/HEHS-97-31, Feb. 5, 1997).
Federal Grants: Design Improvements Could Help Federal Resources Go Further (GAO/AIMD-97-7, Dec. 18, 1996).
Public Health: A Health Status Indicator for Targeting Federal Aid to States (GAO/HEHS-97-13, Nov. 13, 1996).
School Finance: Options for Improving Measures of Effort and Equity in Title: (GAO/HEHS-96-142, Aug. 30, 1996).
Highway Funding: Alternatives for Distributing Federal Funds (GAO/RCED-96-6, Nov. 28, 1995).
Ryan White Care Act of 1990: Opportunities to Enhance Funding Equity (GAO/HEHS-96-26, Nov. 13, 1995).
Department of Labor: Senior Community Service Employment Program Delivery Could Be Improved Through Legislative and Administrative Action (GAO/HEHS-96-4, Nov. 2, 1995).

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## Reassess Benefit Payments Under the Federal Employees' Compensation Act

Federal workers who are disabled as a result of a work-related injury are entitled to tax-free workers' compensation benefits under the Federal Employees' Compensation Act (FECA). Benefit payment policies could be revised to better address eligibility and/or need, or to bring FECA benefits more in line with other federal and state workers' compensation laws.

### Basing FECA Compensation on Spendable Earnings

For almost all totally disabled individuals, FECA benefits are 66 2/3 percent of gross pay for beneficiaries without dependents and 75 percent of gross pay for beneficiaries with at least one dependent. In one study, nearly 30 percent of the more than 23,000 beneficiaries reviewed received FECA benefits that replaced more than 100 percent of their estimated take-home pay. Another 40 percent of these beneficiaries received FECA benefits that were between 90 and 99 percent of their take-home pay. Benefit replacement rates tended to be higher for beneficiaries who (1) received higher amounts of pay before they were injured, (2) were injured before 1980, (3) received the FECA dependent benefit, and (4) lived in states that had an income tax.

Workers' compensation program analysts are reluctant to take a position on what the "correct" level of workers' compensation benefits should be, leaving that matter to the judgment of legislators. According to a 1985 Workers Compensation Research Institute report, legislators in many states must walk a fine line between benefits that are high enough to provide adequate income, but not so high as to discourage an employee's return to work when no longer disabled. The 1972 Report of the National Commission on State Workmen's Compensation Laws recommended that workers' weekly benefits should replace at least 80 percent of their spendable weekly earnings, subject to a state's maximum weekly benefit. Six states use a percentage of spendable weekly earnings (ranging from 75 to 80 percent) rather than a percentage of gross wages as the basis for computing compensation benefits. Spendable earnings (take-home pay) are computed by taking an employee's gross pay at the time of injury and subtracting Social Security taxes and federal and state income taxes. Taxes are based on published tax withholding tables, given an employee's actual exemptions and a standard deduction.

If the Congress judges that current FECA benefits are so high as to discourage employee's return to work, it could consider changing the current FECA benefit structure from one that bases compensation on gross pay to one that bases compensation on spendable earnings.

### Revising Benefits for Retirement Eligible Beneficiaries

Retirement eligible federal workers who continue to be disabled as a result of a work-related injury could receive tax-free workers' compensation benefits under FECA for the remainder of their lives that would generally be greater than amounts these workers would receive as retirement benefits. FECA benefits are 75 percent of salary for a disabled employee with a dependent; Civil Service Retirement System benefits for a 55-year old employee with 30 years of service are 56 percent of salary. In one study, 60 percent of the approximately 44,000 long-term FECA beneficiaries reviewed were at least age 55, the age at which some federal employees are eligible for optional retirement with unreduced retirement benefits. Proponents for changing FECA benefits for older beneficiaries argue that an inequity is created between federal workers who retire normally and those who, in effect, "retire" on FECA benefits. Opponents of such a change argue that reducing benefits would break the implicit promise that injured workers have exchanged their right to tort claims for a given level of future benefits.

Reducing FECA benefits to those who become eligible for retirement could be accomplished in two ways. One would convert compensation benefits received by retirement-eligible disabled workers to retirement benefits. However, this approach raises complex issues related to the tax-free nature of workers' compensation benefits and to the individual's entitlement to retirement benefits. The second proposal would convert FECA benefits to a newly established FECA annuity, thus avoiding the complexity of shifting from one benefit program to another.

**FECA Cases Involving Third Parties**
FECA authorizes federal agencies to continue paying employees their regular salaries for up to 45 days when they are absent from work due to work-related traumatic injuries. In cases in which third parties are responsible for employees' on-the-job injuries (e.g., dog bites or automobile-related injuries), the Department of Labor may require that employees pursue collection actions against these parties. However, based on current interpretations of FECA by the Employees' Compensation Appeals Board and a federal appeals court, the federal government has no legal basis to obtain refunds from third parties for the first 45 days of absence from work (called the continuation-of-pay (COP) period). Recoveries from third parties continue to be allowed for payments of compensation benefits following the COP period and for medical benefits.

Based on the current interpretation of FECA, employees can receive regular salary payments from their employing agencies and reimbursements from third parties—in effect, a double recovery of income for their first 45 days of absence from work due to an injury for which a third party was responsible. The Congress could amend FECA to expressly provide for refunds of amounts paid as COP when employees receive third party recoveries.

**Comparability of FECA and Other Compensation Laws**
There are three principal ways in which FECA differs from other workers' compensation laws, each of which results in relatively greater benefits under FECA. First, FECA authorizes maximum weekly benefit amounts that are greater than those authorized by other federal and state workers' compensation laws. As of January 1, 1995, maximum authorized weekly FECA benefits were $1,274, or 75 percent of the base salary of a GS-15, step 10. The maximum weekly benefit authorized under other workers' compensation laws was $817 in one state. FECA also authorizes additional benefits for one or more dependents equal to 8.33 percent of salary. Only seven states authorize additional benefits for dependents, ranging from $5 to $10 per week per dependent, with total benefits not exceeding maximum authorized benefit amounts. Finally, FECA provides eligible workers who suffer traumatic injuries with their regular salary for a period not to exceed 45 days. Compensation benefits for wage loss begin on the 48th day, after a 3-day waiting period. All other federal and state workers' compensation laws provide for a 3- to 7-day waiting period following the injury before paying compensation benefits. In either case, if employees continue to be out of work for extended periods of time ranging from 5 to 42 days, depending on the jurisdiction, retroactive benefits to cover the waiting period would be paid.

Reducing FECA's authorized maximum weekly benefit to make it comparable to other compensation laws would have little effect on compensation costs because very few federal workers receive maximum benefits. However, eliminating augmented compensation benefits for dependents and placing a 5-day waiting period immediately following the injury, and before the continuation of pay period, would produce savings.

Federal Employees' Compensation Act: Percentages of Take-Home Pay Replaced by Compensation Benefits (GAO/GGD-98-174, Aug. 17, 1998).
Federal Employees' Compensation Act: Issues Associated with Changing Benefits for Older Beneficiaries (GAO/GGD-96-138BR, Aug. 14, 1996).
Workers' Compensation: Selected Comparisons of Federal and State Laws (GAO/GGD-96-76, Apr. 3, 1996).
Federal Employees' Compensation Act: Redefining Continuation of Pay Could Result in Additional Refunds to the Government (GAO/GGD-95-135, June 8, 1995).

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**Reduce Export-Import Bank Programs**

The U.S. Export-Import Bank (Eximbank) was created to facilitate exports of U.S. goods and services by offering a wide range of financing at terms competitive with those of other governments' export financing agencies. Eximbank is to absorb risks that the private sector is unwilling or unable to assume. Higher risk markets, such as the Newly Independent States of the Former Soviet Union, constitute a relatively small share of the Eximbank's total financing commitments yet absorb a relatively large share of its subsidy costs. From fiscal years 1994 to 1998, Eximbank used an average of about $859 million of its credit subsidy appropriation to support an average of about $12.2 billion in export financing commitments (loans, loan guarantees, and insurance). Eximbank's congressional mandate is to supplement, not compete with, private capital. Thus it provides financing in a wide variety of markets, including more markets in higher risk categories than those of any of its major competitors.

The level and scope of the risks of the Eximbank's programs could be reduced by several means, such as placing a ceiling on the maximum subsidy rate allowed in Eximbank programs, reducing or eliminating program availability offered in high-risk markets, and offering less than 100-percent risk protection. These changes would have only a slight effect on the overall level of U.S. exports supported with Eximbank financing. However, these options raise several trade and foreign policy issues that decisionmakers would need to address before making any changes in Eximbank's programs. Eximbank officials noted that these options could undermine U.S. government efforts to provide support in some higher-risk markets, such as the Newly Independent States of the Former Soviet Union, that exhibit promising long-term potential.

The specific level of savings resulting from these program changes would be dependent on several factors, including the willingness of exporters and participating banks to absorb increased costs and risks, and the reaction of foreign export credit agencies. Based on 1998 transaction levels, about $243 million in program subsidy savings could be achieved annually if Eximbank provided only short-term cover in higher risk markets.

U.S. Export-Import Bank: Issues Raised by Recent Market Developments and Foreign Competition (GAO/T-NSIAD-99-23, Oct. 7, 1998).
Export-Import Bank: Key Factors in Considering Eximbank Reauthorization (GAO/T-NSIAD-97-215, July 17, 1997).
Export-Import Bank: Options for Achieving Possible Budget Reductions (GAO/NSIAD-97-07, Dec. 20, 1996).
Foreign Affairs: Perspectives on Foreign Affairs Programs and Structures (GAO/NSIAD-97-6, Nov. 8, 1996).
Export Finance: Comparative Analysis of U.S. and European Union Export Credit Agencies (GAO/GGD-96-1, Oct. 24, 1995).
Export Finance: The Role of the U.S. Export-Import Bank (GAO/GGD-93-39, Dec. 23, 1992).

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**Improve Targeting of Payments to Skilled Nursing Facilities**

Medicare payments for skilled nursing facility (SNF) services have increased dramatically, with spending rising at an average annual rate of 25 percent between 1990 and 1998, when it reached $13.6 billion. To curb this growth, the Balanced Budget Act of 1997 (BBA) replaced Medicare's cost-based payments with a prospective payment system (PPS) under which providers are paid a fixed, all-inclusive daily payment, adjusted for the expected care needs of each patient. This payment system is designed to reward efficient providers, in contrast to the former payment system, which provided few incentives to control costs. On July 1, 1998, SNFs began the transition to the PPS.

Although aggregate PPS payments to SNFs appear to be adequate, several modifications could help target payments more appropriately. First, the PPS should be modified to pay appropriately for non-therapy ancillary services. Non-therapy ancillary services include drugs, laboratory tests, radiology procedures, respiratory therapy, medical supplies, intravenous therapy, and other non-routine services. Currently, the PPS appears to overcompensate for patients with limited needs and undercompensate for patients with extensive needs. This misallocation could create access problems for patients with high needs.

Second, the case-mix classification system, which is designed to account for differences in patients' needs, should be modified so that it does not rely on the services patients receive. The current case-mix adjuster preserves the opportunity for SNFs to increase their compensation by supplying potentially unnecessary services. For example, the payment for a patient who requires 143 minutes of therapy care daily is $286 per day, compared with $346 for a patient who requires 144 minutes. A better classification system would be less dependent on service use and more closely tied to patient characteristics.

Third, since the current case-mix adjustment method enables SNFs to increase their compensation by supplying unnecessary services (as the example above illustrates), adequate oversight is needed to ensure that patients are categorized correctly. Adequate oversight is also needed to ensure that all patients meet Medicare's SNF coverage criteria.

Medicare: Better Information Can Help Ensure That Refinements to BBA Reforms Lead to Appropriate Payments (GAO/T-HEHS-00-14, Oct. 1, 1999).
Skilled Nursing Facilities: Medicare Payments Need to Better Account for Nontherapy Ancillary Cost Variation (GAO/HEHS-99-185, Sept. 30, 1999).
Balanced Budget Act: Any Proposed Fee-for-Service Payment Modifications Need Thorough Evaluation (GAO/T-HEHS-99-139, June 10, 1999).

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## Design New Payment System so that Medicare Does Not Overpay for Home Health Care

Between 1990 and 1997, Medicare spending for home health care rose at an annual rate of 25.2 percent, making it one of Medicare's fastest growing benefits. By 1997, home health care consumed about $1 of every $11 of Medicare outlays, or about $17.8 billion. Evidence indicates that at least some of the spending is attributable to inappropriate billings and unnecessary care. To begin to control spending, the Balanced Budget Act of 1997 (BBA) mandated a prospective payment system (PPS), which will be implemented on October 1, 2000. The PPS will pay a fixed, pre-determined rate for each 60-day episode of care. The rate will be varied by a case-mix adjustment method that aims to adequately pay for patients with high services needs, yet not overpay for others with lower needs. Designing this mechanism requires detailed information, some of which is not yet available, about services and beneficiary characteristics. Currently, there are large unexplained variations in patients' needs and services provided. For example, in 1996, Medicare beneficiaries in one region of the country received more than twice as many home health visits on average as beneficiaries in another region. Also, the absence of standards for when a home health visit is needed, what services constitute a visit, or how long a visit lasts hinder these efforts. However, more information is being collected and will be useful in improving the PPS.

Until necessary information on home health standards is available and the large variations in home health use are better understood, the potential still exists for Medicare to pay excessively for the services delivered to beneficiaries. That is, if the PPS rate is set too high relative to the actual cost of providing services, the PPS rate could provide a windfall for some home health agencies, thereby reducing the incentive for providers to be efficient. Consequently, limits should be placed on the profits that agencies can earn under the new PPS.

These limits can also discourage agencies from stinting on needed care in order to boost profit margins. That is, without profit limits, agencies could receive a payment for an episode of care, reduce services below what the same payment amount had previously purchased, and pocket the difference. Medicare would not be able to effectively challenge these service reductions because there are no standards for what constitutes necessary home health care. With profit limits, the agencies have less incentive to cut needed services because they would not be able to keep all of the excess revenue.

Once sufficient information is available to establish criteria for necessary home health care and refine case-mix adjustments, profit limits could be removed. An improved PPS would better target payments to reward providers for delivering care efficiently and protect Medicare from overpaying for home health care services.

<u>Medicare: Better Information Can Help Ensure That Refinements to BBA Reforms Lead to Appropriate Payments</u> (GAO/T-HEHS-00-14, Oct. 1, 1999).

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**Pay Appropriately for Durable Medical Equipment and Supplies**

In 1996, Medicare's Supplementary Medical Insurance (Medicare Part B) paid over $4.6 billion for durable medical equipment and supplies. Medicare pays for the equipment and supplies on the basis of a fee schedule. Currently, fees are designed to reflect largely retail prices in order to insure that individual beneficiaries who purchase items directly are adequately reimbursed. This same fee schedule is used to reimburse large suppliers, including home and medical equipment and supply companies and distributors who submit claims on behalf of nursing homes. These suppliers often negotiate substantial discounts with manufacturers and wholesalers. For example, one supplier's weighted average cost for all catheters billed in 1996 under one Medicare billing code was less than $1 per catheter; however, Medicare reimbursed the supplier at the program's fee schedule allowance of $10 to $12 per catheter.

Separate fee schedules should be developed to distinguish between wholesale and retail acquisition to ensure that large suppliers do not receive inappropriately large Medicare reimbursements.

Medicare: Need to Overhaul Costly Payment System for Medical Equipment and Supplies (GAO/HEHS-98-102, May 12, 1998).
Medicare: Problems Affecting HCFA's Ability to Set Appropriate Reimbursement Rates for Medical Equipment and Supplies (GAO/HEHS-97-157R, June 17, 1997).
Medicare Spending: Modern Management Strategies Needed to Curb Billions in Unnecessary Payments (GAO/HEHS-95-210, Sept. 19, 1995).
Medicare: Excessive Payments for Medical Supplies Continue Despite Improvements (GAO/HEHS-95-171, Aug. 8, 1995).

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**Coordinate Federal Policies Subsidizing Water for Agriculture and Rural Uses**

Federal water programs to promote efficient use of finite water resources for the nation's agricultural and rural water systems have developed inconsistencies that may cause the programs to work at cross-purposes. In 1995, as many as eight different federal agencies administered 17 different programs just in the area of rural water and wastewater systems. In the area of irrigation, the multiplicity of programs and approaches has allowed for inconsistencies and potentially counterproductive outcomes.

To improve the effectiveness and efficiency of federal water programs, the Congress could consider several options to reduce duplication or inconsistencies, including:

Collecting the Full Costs of Subsidized Federal Water for Large Farms

Under the Reclamation Reform Act of 1982, as amended, some farmers have reorganized large farming operations into multiple, smaller landholdings to be eligible to receive additional federally subsidized irrigation water. The act limits to 960 the maximum number of owned or leased acres that individuals or legal entities (such as partnerships or corporations) can irrigate with federal water at rates that exclude interest on the government's investment in the irrigation component of its water resource projects. However, due to the vague definition of the term "farm," the flow of federally subsidized water to land holdings above the 960 acre-limit has not been stopped, and the federal government is not collecting revenues to which it is entitled under the act.

Phasing Out the Double Subsidies for Crops

The use of federally subsidized water to produce federally subsidized crops results in the government paying double subsidies. According to the Department of the Interior, between 1976 and 1985, an average of 38 percent of the acreage served by the Bureau of Reclamation nationwide was used to produce crops that are also eligible for subsidies through the Department of Agriculture's commodity programs. Estimates of the cost of federal water subsidies vary but are substantial. The Department of the Interior estimated that irrigation subsidies used to produce subsidized crops throughout the 17 western states totaled $203 million in 1986; the Bureau of Reclamation placed the figure at $830 million.

Accelerating the Repayment of Water Project Construction Costs

By the end of fiscal year 1990, after receiving water from the Central Valley Project (CVP) in California's Central Valley Basin for over 40 years, irrigators had repaid only $10 million, 1 percent, of the over $1 billion in construction costs that they owe the federal government. In 1986, the Congress required irrigators and other users to pay their share of the federal investment in CVP by 2030. While construction costs ultimately may be recovered by 2030, the dollars that eventually flow to the Treasury could be worth much less than if they had been repaid sooner. The Congress may wish to accelerate the repayment schedule.

Fully Recovering the Federal Investments in Rural Water Systems

Under the current repayment criteria, approximately $454 million of the federal investment in the Pick-Sloan Basin Program (a comprehensive plan to manage the water and hydropower resources of the Missouri River basin) is unrecoverable. A portion of Pick-Sloan's completed facilities were intended for use with irrigation facilities that have not been completed and are no longer considered feasible. In addition, as the overall federal investment in the other aspects of the completed hydropower facilities increases because of changes such as renovations and replacements, the amount of the federal investment that is unrecoverable will increase. Changing the terms of repayment to recover any of the $454 million investment would require congressional action. Consistent with previous congressional action concerning the program, the Congress could direct the Western Area Power Administration to recover the investment through power revenues and to take action to minimize any impact on power rates.

Phasing Out the Interest Subsidies for Irrigators

Estimates of the current cost of federal water subsidies are substantial. For example, the Department of the Interior reported that irrigation subsidies throughout the 17 western states totaled $534 million in 1986, while the Bureau of Reclamation placed the cost at $2.2 billion. Estimates differ because of different definitions of an irrigation subsidy, different interest rates used to calculate the subsidies, and different methods for compounding unpaid interest. Much has changed in the West since the subsidies were established in 1902, and it is not known whether the subsidies are still warranted or whether irrigators could pay more of the cost of the water delivered.

Rural Water Projects: Federal Assistance Criteria (GAO/RCED-98-204R, May 29, 1998).
Rural Development: Patchwork of Federal Water and Sewer Programs Is Difficult to Use (GAO/RCED-95-160BR, Apr. 13, 1995).
Water Subsidies: Impact of Higher Irrigation Rates on Central Valley Project Farmers (GAO/RCED-94-8, Apr. 19, 1994).
Reclamation Law: Changes Needed Before Water Service Contracts Are Renewed (GAO/RCED-91-175, Aug. 22, 1991).
Water Subsidies: The Westhaven Trust Reinforces the Need to Change Reclamation Law (GAO/RCED-90-198, June 5, 1990).
Water Subsidies: Basic Changes Needed to Avoid Abuse of the 960-Acre Limit (GAO/RCED-90-6, Oct. 12, 1989).

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**Reform Social Security Disability Programs**

In 1998, the Social Security Administration (SSA) paid over $77 billion in cash benefits to nearly 11 million Supplemental Security Income (SSI) and Disability Insurance (DI) beneficiaries, including DI spouses and dependents. While providing a measure of income security, these programs do little to enhance the work capacities and economic independence of beneficiaries. Each year, about 1 in 500 DI beneficiaries and few SSI beneficiaries leave the rolls by returning to work. However, if an additional 1 percent of the disabled beneficiaries left SSA's disability rolls by returning to work, lifetime cash benefits would be reduced by an estimated $3 billion. In addition, the complex disability claims process underlying these payments has been plagued by a number of long-standing weaknesses. The process of applying for benefits is complex and people often have to wait as long as a year for a final decision on their eligibility. Moreover, there are concerns about the fairness of the decision-making process because of the high percentage of applicants who are initially denied benefits and then, upon appeal, are approved.

In 1994, SSA developed an ambitious plan to redesign its disability claims process, which the agency originally estimated would result in administrative cost savings of $704 million through fiscal year 2001. However, the agency has yet to make significant progress in improving the process, and SSA could further focus its efforts on those initiatives that offer the greatest potential to achieve significant improvements. These include initiatives to increase the consistency of decisions between the initial application and appeals level, improve quality assurance measures, and increase efficiencies through the use of technology.

In addition, weaknesses in the design and implementation of the current DI and SSI programs have impeded identifying and enhancing the productive capacities of those who may benefit from employment assistance. For example, the work incentive provisions are complex, difficult to understand, and poorly implemented: few beneficiaries are even aware that work incentives exist. And, despite providing some financial protection for those who want to work, the DI work incentives have not appeared to be sufficient to overcome the prospect of a drop in income for those who accept low-wage employment. In addition, the work incentives do not seem to allay the fear of losing medical coverage and other federal and state assistance that beneficiaries who return to work may face. Under current law, beneficiaries who earn countable income above certain amounts will eventually lose premium-free medical coverage, even though they may not have improved medically or obtained medical coverage elsewhere. Finally, few beneficiaries are referred for Vocational Rehabilitation (VR) services, and fewer still are accepted by state VR agencies as clients, resulting in limited access to VR. If enacted into law, the Work Incentives Improvement Act of 1999 will address some but not all of the programmatic barriers beneficiaries face in returning to work. Moreover, SSA's efforts would have a greater effect if they were integrated into a unified and comprehensive return-to-work strategy that structured cash and medical benefits to give beneficiaries greater impetus to attempt work and provided return-to-work assistance earlier in the decision-making process. In addition, SSA needs to identify the regulatory and legislative actions necessary to support these changes. Moreover, to date, SSA has treated its claims process and return-to-work reforms as separate initiatives. The agency needs to better integrate its efforts to reform the disability claims process with its measures to increase the number of beneficiaries who leave the rolls and return to work.

Social Disability Redesign: Actions Needed to Enhance Future Progress (GAO/HEHS-99-25, Mar. 12, 1999).
Social Security: Disability Programs Lag in Promoting Return to Work (GAO/HEHS-97-46, Mar. 17, 1997).
People With Disabilities: Federal Programs Could Work Together More Efficiently to Promote Employment (HEHS-96-126, Sept. 3, 1996).
SSA Disability: Return-to-Work Strategies From Other Systems May Improve Federal Programs (HEHS-96-133, July 11, 1996).

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**Limit the Tax Exemption for Employer-Paid Health Insurance**

The current tax treatment of health insurance gives few incentives to workers to economize on purchasing health insurance. Employer contributions for employee health insurance are considered deductible, ordinary, business expenses, and employer contributions are not included in an employee's taxable income. Some analysts believe that the tax-preferred status of these benefits has contributed to the overuse of health care services and large increases in health care costs. In addition, the primary tax benefits accrue to those in high tax brackets who also have above average incomes.

Placing a cap on the amount of health insurance premiums that could be excluded—that is, including in a worker's income the amount over the cap—could improve incentives and, to a lesser extent, tax equity. To illustrate the potential savings, the Congressional Budget Office estimated the revenue effect of capping exclusions at $425 per month for family coverage and $175 per month for individuals. This specific option would increase income tax revenues by $52.4 billion over the 2000-2004 period. This estimate does not reflect potential effects on payroll tax revenues.

Tax Policy: Effects of Changing Tax Treatment of Fringe Benefits (GAO/GGD-92-43, Apr. 7,1992).

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**Further Limit the Deductibility of Mortgage Interest**

The term home equity borrowing or financing is usually applied to mortgages other than the original loan used to acquire a home or to any subsequent refinancing of that loan. Interest is deductible on up to $100,000 of home equity indebtedness and $1 million of indebtedness used to acquire a home. Home equity financing is not limited to home-related uses and can be used to finance additional consumption by borrowers.

Use of mortgage related debt to finance nonhousing assets and consumption purchases through home equity loans could expose borrowers to increased risk of losing their homes should they default. Equity concerns may exist because middle and upper income taxpayers who itemize primarily take advantage of this tax preference, and such an option is not available to people who rent their housing.

One way to address the issues concerning the amounts or uses of home equity financing would be to further reduce the maximum amount of deductible mortgage interest. To illustrate the potential savings, the Congressional Budget Office has estimated the effect of reducing the amount of principal eligible for the deduction from $1 million to $300,000. This specific option would increase revenues by $15.6 billion over 5 years.

Tax Policy: Many Factors Contributed to the Growth in Home Equity Financing in the 1980s (GAO/GGD-93-63, Mar. 25, 1993).

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**Consolidate Asset Forfeiture Programs at the Departments of Justice and Treasury**

Federal asset forfeiture programs at the Departments of Justice and the Treasury, with combined inventories valued at $1.8 billion as of September 30, 1997, have not adequately focused on managing the items seized. Justice and the Treasury continue to operate two similar but separate seized asset management and disposal programs without plans for consolidation, despite legislation requiring them to develop a plan to consolidate postseizure administration of certain properties.

The Congress may wish to pursue further consolidation of these separate programs. Consolidating the management and disposition of all noncash seized property could reduce administrative costs by an estimated $2.5 million annually.

High-Risk Series: Asset Forfeiture Programs (GAO/HR-99-1, Jan. 1, 1999).
Major Management Challenges and Program Risks: Department of Justice (GAO/OCG-99-10, Jan. 1, 1999).
Asset Forfeiture: Historical Perspective on Asset Forfeiture Issues (GAO/T-GGD-96-40, Mar. 19, 1996).
Asset Forfeiture: Noncash Property Should Be Consolidated Under the Marshals Service (GAO/GGD-91-97, June 28, 1991).
Asset Forfeiture: Opportunities for Savings Through Program Consolidation (GAO/T-GGD-91-22, Apr. 25, 1991).

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## Determine Resource Needs For Completing Criminal Alien Deportation Proceedings

The Immigration and Naturalization Service's (INS) Institutional Hearing Program (IHP) is the Department of Justice's main vehicle for placing aliens who are incarcerated in state and federal prisons into deportation proceedings so that they can be deported expeditiously upon release from prison. In 1995 and 1997, in 6-month periods, INS failed to identify nearly 2,000 potentially deportable aliens in each year before they completed their prison sentences, resulting in their release into communities in the United States before determining their risk to public safety. Hundreds of these criminal aliens were aggravated felons who, by law, should have been placed in removal proceedings while in prison and taken into INS custody upon release. Some of these aliens were subsequently rearrested for new crimes, including felonies.

Even when INS determined that an alien was potentially deportable and should be placed into removal proceedings, INS did not complete the IHP for at least half of such cases in each year. As a result, INS took many of the released criminal aliens into custody and completed the removal process for them subsequent to prison release. As a result of this failure to complete the IHP before prison release, INS incurred substantial avoidable detention costs.

Possible steps that INS could take to improve this situation include developing a workload analysis model to help it determine resource needs for completing IHPs on all eligible aliens, and giving priority to IHPs for aliens serving time for aggravated felonies. By implementing these recommendations, INS could avoid approximately $40 million dollars in annual detention costs.

Immigration and Naturalization Service: Overview of Management and Program Challenges (GAO/T-GGD-99-148, July 29, 1999).
Major Management Challenges and Program Risks: Department of Justice (GAO/OCG-99-10, Jan. 1, 1999).
Criminal Aliens: INS' Efforts to Remove Imprisoned Aliens Continue to Need Improvement (GAO/GGD-99-3, Oct. 16, 1998).
Criminal Aliens: INS' Efforts to Identify and Remove Imprisoned Aliens Continue to Need Improvement (GAO/T-GGD-99-47, Feb. 25, 1999).
Criminal Aliens: INS' Efforts to Identify and Remove Imprisoned Aliens Need to Be Improved (GAO/T-GGD-97-154, July 15, 1997).

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## Further Consolidate Farm Service Agency County Offices

The United States Department of Agriculture (USDA) has maintained a field structure that dates back to the 1930s, when transportation and communications systems limited the geographic boundaries covered by a single field office and there were a greater number of small, widely disbursed, family-owned farms. In 1933, the United States had more than 6 million farmers; today the number of farms in the United Sates is less than 2 million and a small fraction of these produce more than 70 percent of the nation's agricultural output. In response to the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994, USDA's Farm Service Agency has closed over 370 county offices and reduced its county office staff by about 28 percent. However, the Farm Service Agency still has nearly 2,400 county offices, including 673 small county offices that have three or fewer permanent full-time employees. These smaller offices generally cannot take advantage of certain economies of scale. For example, USDA's workload data indicate that small county offices spend about 46 percent of their time on such fixed administrative activities as obtaining and managing office space and processing paperwork related to payroll. In comparison, larger county offices spend only 32 percent of their time to these administrative activities.

The Farm Service Agency could further consolidate its county office field structure by closing more of its small county offices. Criteria for determining which small county offices to close could include the (1) distance from another county office, (2) time spent on administrative duties, and (3) number of farmers who receive Farm Service Agency financial benefits.

Farm Service Agency: Characteristics of Small County Offices (GAO/RCED-99-102, May 28, 1999).
U.S. Department of Agriculture: Status of Closing and Consolidating County Offices (GAO/T-RCED-98-250, July 29, 1998).
Farm Programs: Service to Farmers Will Likely Change as Farm Service Agency Continues to Reduce Staff and Close Offices (GAO/RCED-98-136, May 1, 1998).
Farm Programs: Administrative Requirements Reduced and Further Program Delivery Changes Possible (GAO/RCED-98-98, Apr. 20, 1998).

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**Strengthen Controls Over Crop Insurance Claims**

Since 1981, the United States Department of Agriculture's (USDA) crop insurance program has provided $14.1 billion to farmers for insured crop losses caused by droughts, floods, hurricanes, and other natural disasters. Although the program's loss experience is a major factor in determining the cost of federal crop insurance to farmers and to the government, there are no reliable estimates of the extent to which crop insurance claims are paid in error. While USDA's Risk Management Agency estimates that about 5 percent of claims were paid in error in 1997, its methodology for estimating errors was questionable in several respects. As a result, the Risk Management Agency does not know the extent to which private insurance companies are making erroneous crop insurance payments or the effectiveness of individual administrative requirements in minimizing erroneous payments. The Risk Management Agency would strengthen quality controls and reduce erroneous payments if it had a better understanding of the nature and magnitude of payment errors. Better controls over claims payments could potentially save the crop insurance program and the government millions of dollars annually.

To ensure proper control over claims payments, USDA could develop a more statistically valid sampling approach that would develop accurate estimates of error rates for crop insurance claims payments.

Crop Insurance: USDA Needs a Better Estimate of Improper Payments to Strengthen Controls Over Claims (GAO/RCED-99-266, Sept. 22, 1999).

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## Consolidate Student Aid Programs

There are more than a dozen postsecondary education programs, funded at over $1 billion in fiscal year 1999, that could be candidates for consolidation. These programs are targeted at specific segments of the postsecondary school population, for example programs to enhance the labor pool in certain specialties. In anticipation of the administrative savings that could be achieved through consolidation, funding for these programs could be reduced for each year through FY 2004 as part of the consolidation.

The following student aid programs are additional potential targets for consolidation:

- Federal Family Education Loan Program (FFELP) and Federal Direct Loan Program (FDLP)

  The two programs could be merged into one program. The programs are similar, except that FFELP loans are made by private lenders and guaranteed by the federal government, while FDLP loans are made directly by the government. The benefits and other aspects of the programs are basically the same for borrowers. Schools select which program they want to participate in, and students must follow the schools' lead. Total loans to be made in fiscal year 2000 are expected to be over $41 billion, of which three-fifths would be FFELP.

- Federal Perkins Loan Program and FFELP/FDLP

  Perkins is a relatively small loan program (about $1 billion in loans in fiscal year 2000, with a federal cost of $130 million), with different interest rates and loan terms than FFELP or FDLP. Under Perkins, the government provides capital to schools that operate revolving funds to make loans to students. Schools can target these loans to selected groups of their populations. The students then repay their loans to the schools, which can use the proceeds to make additional loans to students.

- Federal Pell Grant and Supplemental Educational Opportunity Grants (SEOG) Programs

The Pell grant program is the principal federal program to provide "free" assistance to low income students, and is expected to provide $7.9 billion in grants to students in fiscal year 2000. SEOG is a much smaller program, about $800 million in grants in fiscal year 2000, that schools can target to selected populations.

<u>Department of Education: Information on Consolidation Opportunities and Student Aid</u> (GAO/T-HEHS-95-130, Apr. 6, 1995).
<u>Department of Education: Opportunities to Realize Savings</u> (GAO/T-HEHS-95-56, Jan.18, 1995).

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## Use a Superlative Index Formula to Calculate the Consumer Price Index

Presently, federal spending and revenue programs that are automatically adjusted for inflation use the Consumer Price Index (CPI) that is calculated with a Laspeyres index formula. This formula, in effect, holds the market basket of goods and services constant until revised, with revisions occurring about once every 10 years or so. The Advisory Commission to Study the CPI (Boskin commission) recommended that the Laspeyres index formula be abandoned and replaced with a superlative index formula, which would continually change the market basket to reflect current consumer spending. The Boskin commission stated that switching to a superlative index formula would alleviate the problem of the growing irrelevancy of using a market basket based on decade-old consumption patterns and move toward reducing the bias the commission identified in the CPI.

Using a superlative index formula rather than the Laspeyres formula would reduce the measured rate of inflation. Estimates provided in the Boskin commission's final report indicated that the CPI would be 0.15 percentage point lower per year if it were calculated with a superlative index formula. Assuming that the tax base stays unchanged, the adoption of a CPI that uses a superlative index formula for indexation in federal programs may increase the budget surplus (i.e., reduce outlays and increase revenues) by about $1 billion in the first year, more than double that amount in the second year, and increasing thereafter.

The Bureau of Labor Statistics has announced it will begin publishing in 2002 a CPI based on a superlative index formula, in addition to the CPI based on the Laspeyres index formula it now publishes. To achieve savings, Congress could consider legislation to mandate the use of the new superlative index formula CPI in federal programs that require automatic adjustment for inflation.

Consumer Price Index: More Frequent Updating of Market Basket Expenditure Weights Is Needed (GAO/GGD/OCE-98-2, Oct. 9, 1997).

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**Eliminate the $1 Note**

Replacing the $1 note with a new $1 coin could yield over $450 million of savings to the government per year, on average, over a 30-year period. The savings come about because a coin lasts longer than paper money; the Federal Reserve has lower processing costs with coins than paper money; and a coin would result in interest savings from the additional seigniorage earned on a coin (i.e., the difference between the face value of a coin and its production cost).

In the past, the executive branch has not supported the replacement of the $1 note with a coin because of the belief that the Congress would respond to public pressure and allow both the coin and note to be used. All Western economies now use a coin for monetary transactions at the same value that Americans use the more costly paper note. These countries have demonstrated that public resistance to such a change can be managed and overcome. The U.S. will be releasing a new dollar coin next year. For the coin to be successful, however, the note has to be eliminated. With proper congressional oversight, public resistance to elimination of the $1 note could be overcome and public support for the coin improved.

A Dollar Coin Could Save Millions (GAO/T-GGD-95-203, July 13, 1995).
1-Dollar Coin Reintroduction Could Save Millions if It Replaced the 1-Dollar Note (GAO/T-GGD-95-146, May 3, 1995).
1-Dollar Coin: Reintroduction Could Save Millions if Properly Managed (GAO/GGD-93-56, Mar. 11, 1993).
National Coinage Proposals: Limited Public Demand for New Dollar Coin or Elimination of Pennies (GAO/GGD-90-88, May 23, 1990).

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## Prevent Delinquent Taxpayers from Benefiting from Federal Programs

The federal government's operations are funded primarily through tax revenue collected from the nation's taxpayers. In fiscal year 1998, the federal government, through the Internal Revenue Service (IRS), collected nearly $1.8 trillion in federal tax revenue to finance government operations. However, while most taxpayers comply with their tax obligation, a significant portion of taxpayers do not. Over time, this has led to unpaid taxes, penalties, and interest, which totaled about $222 billion at the end of fiscal year 1998. Of this amount, the IRS estimates that only $26 billion, or about 11 percent, will be collected.

A significant number of taxpayers, both individuals and businesses, who owe the federal government billions of dollars in delinquent taxes receive significant federal benefits and other federal payments. In addition to Social Security Administration benefit payments, federal civilian retirement payments, and federal civilian salaries, payments on federal contracts and Small Business Administration loans are also provided to these delinquent taxpayers. Currently, federal law does not prevent businesses or individuals from receiving federal payments or loans when they are delinquent in paying federal taxes.

The Office of Management and Budget's (OMB) Circular A-129 provides policies for the administration of federal credit programs. These policies specifically direct agencies to determine whether applicants are delinquent on any federal debt, including tax debt, and to suspend the processing of credit applications if applicants have outstanding tax debt until such time as the applicant pays the debt or enters into a payment plan. Unfortunately, these policies have not been effective in preventing the disbursement of federal dollars to individuals and businesses with delinquent taxes. Given this, the Congress may wish to consider legislation that would make the criteria in the OMB Circular for determining the creditworthiness of applicants for federal credit programs generally applicable and thus prevent delinquent taxpayers from benefiting from federal programs while disregarding their tax obligations. This could serve as an incentive for delinquent taxpayers seeking federal assistance to fulfill their tax obligations, thus improving overall compliance and reducing the federal government's balance of uncollectible tax assessments.

Unpaid Payroll Taxes: Billions in Delinquent Taxes and Penalty Assessments Are Owed (GAO/AIMD/GGD-99-211, Aug. 2, 1999).
Tax Administration: Billions in Self-Employment Taxes Are Owed (GAO/GGD-99-18, Feb. 19, 1999).

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## Create a Single Federal Agency to Administer a Unified Food Inspection System

The federal system to ensure the safety and quality of the nation's food is inefficient and outdated and does not adequately protect the consumer against food-borne illness. As many as 12 different agencies administer over 35 different laws that oversee food safety. As a result, the current food safety system suffers from overlapping and duplicative inspections, poor coordination, and inefficient allocation of resources.

To improve the effectiveness and efficiency of the federal food safety system, the Congress could consider the consolidation of federal food safety agencies and activities under a single, risk-based food safety inspection agency with a uniform set of food safety laws.

Food Safety: U.S. Needs a Single Agency to Administer a Unified, Risk-Based Inspection System (GAO/T-RCED-99-256, Aug. 4, 1999).
Food Safety: Opportunities to Redirect Federal Resources and Funds Can Enhance Effectiveness (GAO/RCED-98-224, Aug. 6, 1998).
Food Safety: Federal Efforts to Ensure the Safety of Imported Foods Are Inconsistent and Unreliable (GAO/RCED-98-103, Apr. 30, 1998).
Food Safety: Changes Needed to Minimize Unsafe Chemicals in Food (GAO/RCED-94-192, Sept. 26, 1994).
Food Safety and Quality: Uniform Risk-based Inspection System Needed to Ensure Safe Food Supply (GAO/RCED-92-152, June 26, 1992).

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## USDA Needs to Move to Risk-Based Meat and Poultry Inspections

The United States Department of Agriculture's (USDA) meat and poultry inspection system does not efficiently and effectively use its resources to protect the public from microbial contamination, the most serious health risks associated with meat and poultry. USDA's system is hampered by inflexible legal requirements and relies on outdated, labor-intensive inspection methods. Under current law, each of the over 8 billion livestock and bird carcasses slaughtered annually must be inspected. Further, USDA's Food Safety and Inspection Service (FSIS) states that current law requires it to inspect each of the approximately 5,900 processing plants at least once during each operating shift. While these inspections, which consumed most of FSIS' budget ($676 million and 9,700 staff-years), are unable to detect microbial contamination, such as listeria, E.coli, and salmonella. Inspectors instead, rely on their sense of sight, smell, and touch to make judgments about disease conditions, contamination, and sanitation.

Legislative revisions could allow FSIS to emphasize risk-based inspections. Much of the funding used to fulfill current meat and poultry inspection activities could be redirected to support more effective food safety initiatives, such as helping small slaughter and processing plants fund the installation of risk-based inspection systems or increasing the frequency of inspections at other food plants.

Food Safety: Opportunities to Redirect Federal Resources and Funds Can Enhance Effectiveness (GAO/RCED-98-224, Aug. 6, 1998).
Food Safety: Risk-Based Inspections and Microbial Monitoring Needed for Meat and Poultry (GAO/RCED-94-192, Sept. 26, 1994).
Food Safety and Quality: Uniform Risk-based Inspection System Needed to Ensure Safe Food Supply (GAO/RCED-92-152, June 26, 1992).

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**Continue To Reduce Excess Payments to Medicare+Choice Health Plans**

The Balanced Budget Act of 1997 (BBA) created Medicare+Choice to encourage the wider availability of health maintenance organizations (HMO) and permit other types of health plans, such as preferred provider organizations, to participate in Medicare. In 1999, 15.7 percent of beneficiaries were enrolled in Medicare+Choice, and an estimated 31 percent (14.1 million individuals) will be enrolled by 2009. BBA also modified the methodology used to pay plans, in part because the government was paying more to cover beneficiaries in managed care than it would have if these individuals had remained in the traditional fee-for-service program. Payments to health plans were based on the estimated average cost of fee-for-service beneficiaries in a county; however, plans tended to enroll beneficiaries with better-than-average health who had lower-than-average health care costs. This system resulted in excess payments to managed care plans. BBA used 1997 payment rates as the foundation for rates in 1998 and future years.

The base payment rates should be recalculated to include the cost of all Medicare beneficiaries in the county. The current rate does not include HMO enrollees' costs. Consequently, the base rate is overstated in counties where the HMO enrollees were healthier than the fee-for-service population in 1997, leading to overpayments to HMOs.

Furthermore, a forecast error in the 1997 rates should be corrected. According to HCFA actuaries, the error caused the 1997 rates to be an estimated 4.2 percent too high and, consequently, aggregate plan payments in 1998 were $1.3 billion too high. The excess payments resulting from this forecast error will increase over time as managed care enrollment rises. BBA permits HCFA to correct forecasts in future years but did not include a provision to allow a correction of its 1997 forecast. HCFA maintains that the agency needs statutory authority to correct the 1997 forecast error.

In addition, the BBA-required new risk adjustment method should be implemented promptly. With this risk adjustment, for the first time, managed care plans can expect to be paid more for serving beneficiaries with serious health problems and less for serving relatively healthy ones. The first stage of risk adjustment will be implemented over four years beginning in 2000. This first stage risk adjuster, if fully phased in, would likely reduce payments by about 7 percent. Implementation of the risk adjustment should not be delayed because it helps address the problem of excess payments to Medicare managed care plans.

Shifting to a competitive process for determining Medicare+Choice payment rates may also help save the government money. An initial step towards this goal would be to allow the competitive bidding demonstrations authorized by the BBA to proceed. Currently, language in the Senate's Patient Bill of Rights would stop these demonstrations.

Medicare: Better Information Can Help Ensure That Refinements to BBA Reforms Lead to Appropriate Payments (GAO/T-HEHS-00-14, Oct. 1, 1999).
Medicare+Choice: Reforms Have Reduced, but Likely Not Eliminated, Excess Plan Payments (GAO/HEHS-99-144, June 18, 1999).
Medicare+Choice: Impact of 1997 Balanced Budget Act Payment Reforms on Beneficiaries and Plans (GAO/T-HEHS-99-137, June 9, 1999).
Medicare HMOs: Setting Payment Rates Through Competitive Bidding (GAO/HEHS-97-154R, June 12, 1997).
Medicare HMOs: HCFA Can Promptly Eliminate Hundreds of Millions in Excess Payments (GAO/HEHS-97-16, Apr. 25, 1997).

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## Defense Infrastructure Reform

Despite the Department of Defense's (DOD) actions over the last 10-12 years to reduce infrastructure costs, billions of dollars are still wasted annually on inefficient and unneeded activities and facilities. While DOD has in recent years substantially downsized its force structure, it has not achieved commensurate reductions in operations and support costs. In 1998, for example, DOD estimated that about $147 billion, or 58 percent of its budget, was still needed for infrastructure requirements. Recognizing that it must make better use of its scarce resources, DOD announced the Defense Reform Initiative (DRI) in November 1997. Through this program, DOD hoped to create a revolution in business affairs, which would substantially improve the economy and efficiency of its business operations and streamline its operations. The resulting savings from this program would be used to help DOD increase its weapon modernization budget from $42 billion in fiscal year 1998 to $60 billion in fiscal year 2001.

A major thrust of the DRI was to reduce unneeded infrastructure, primarily through a number of initiatives that potentially could reduce the cost of DOD's operations and support activities. For example, one DRI initiative involves the demolition and disposal of 80 million square feet of excess space at military facilities. Each of the military services has been given a demolition target, which they are expected to reach by the end of fiscal year 2003. Other initiatives include reducing the number of major Defense Information System Agency (DISA) data processing centers from 16 to 6; reducing the number of Defense Finance and Accounting Service (DFAS) operating locations from 19 to 13; closing unneeded research, development, and test facilities; and avoiding hundreds of millions of dollars in future capital expenditures by privatizing utility systems (electric, natural gas, water, and sewer) at military bases.

Overall, DOD's progress in reducing infrastructure is mixed. While it is generally on target to demolish 80,000 square feet of excess space by 2003 and consolidate its DISA data processing centers, it has not yet completed a study on how to reduce the number of DFAS operating locations. Specifically, DFAS estimated that, based on its anticipated future workload, it would reduce its staff from over 21,000 to less than 17,000 people and have 34 percent excess capacity by the end of fiscal year 2003. Before DOD acted on this assessment, Section 914 of the Fiscal Year 1999 Strom Thurmond National Defense Authorization Act required the Secretary of Defense to submit to the Senate and House Armed Services Committees a strategic plan for improving the financial management operations at each DFAS operating location. As of October 1999, this plan was being reviewed by DOD's Comptroller and had not been issued. In the meantime, all potential consolidation efforts are on hold.

Closing unneeded test facilities has also been difficult. DOD's RDT&E infrastructure consists of 131 laboratories and test and evaluation centers, that develop and test military technologies, employing about 90,000 personnel. Over the years, DOD has closed 62 RDT&E sites and eliminated about 40,000 personnel. DOD estimated that the personnel reductions saved $2.4 billion annually but pointed out that the estimate is somewhat inflated because many employees were replaced by on-site contractors who are conducting essentially the same tasks. Despite these reductions, the RDT&E infrastructure continues to be burdened by excess capacity. DOD recently estimated that excess capacity, in terms of square footage, is between 20 percent and 60 percent, depending on the military service and the method of estimation used.

Privatizing utilities has also proved to be more complicated and costly than anticipated and progress has been slow. Currently, 145 of DOD's utility systems are privately owned and operated, and 2,367 systems are being considered for privatization. Although exact costs are not known, DOD estimates that it could cost hundreds of millions of dollars to complete required feasibility and environmental studies and upgrade the facilities to make them attractive to private investors. By not privatizing, however, DOD faces large capital costs in the future (possibly in the billions) to repair the utility systems and ensure they continue to operate at an acceptable level. DOD sees privatization as a way to leverage private resources to finance these needed capital repairs. It also gets DOD out of a business for which it is not particularly suited.

Streamlining, consolidating, and possibly privatizing infrastructure activities can help DOD save significant amounts of operations and support money, which it hopes to apply to future weapon modernization needs. To ensure that these efforts are successful, the Congress could increase its oversight of the DRI and make sure that DOD establishes meaningful performance measures so that the Congress can gauge the progress being made to reduce infrastructure costs.

Defense Infrastructure: Improved Performance Measures Would Enhance Defense Reform Initiative (GAO/NSIAD-99-169, Aug. 4, 1999).
Defense Reform Initiative: Organization, Status and Challenges (GAO/NSIAD-99-87, Apr. 21, 1999).
Defense Reform Initiative: Progress, Opportunities, and Challenges (GAO/T-NSIAD-99-95, Mar. 2, 1999).
Force Structure: A-76 Not Applicable to Air Force 38th Engineering Installation Wing Plan (GAO/NSIAD-99-73, Feb. 26, 1999).
Major Management Challenges and Program Risks: Department of Defense (GAO/OCG-99-4, Jan. 1, 1999).
Army Industrial Facilities: Workforce Requirements and Related Issues Affecting Depots and Arsenals (GAO/NSIAD-99-31, Nov. 30, 1998).
Military Bases: Review of DOD's 1998 Report on Base Realignment and Closure (GAO/NSIAD-99-17, Nov. 13, 1998).
Defense Infrastructure: Challenges Facing DOD in Implementing Reform Initiatives (GAO/T-NSIAD-98-115, Mar. 18, 1998).
Best Practices: Elements Critical to Successfully Reducing Unneeded RDT&E Infrastructure (GAO/NSIAD/RCED-98-23, Jan. 8, 1998).
Future Years Defense Program: DOD's 1998 Plan Has Substantial Risk in Execution (GAO/NSIAD-98-26 Oct. 23, 1997).
1997 Defense Reform Bill: Observations on H.R. 1778 (GAO/T-NSIAD-97-187, June 17, 1997).
Defense Infrastructure: Demolition of Unneeded Buildings Can Help Avoid Operating Costs (GAO/NSIAD-97-125, May 13, 1997).
DOD High-Risk Areas: Eliminating Underlying Causes Will Avoid Billions of Dollars in Waste (GAO/T-NSIAD/AIMD-97-143, May 1, 1997).
Defense Acquisition Organizations: Linking Workforce Reductions With Better Program Outcomes (GAO/T-NSIAD-97-140, Apr. 8, 1997).
Defense Budget: Observations on Infrastructure Activities (GAO/NSIAD-97-127BR, Apr. 4, 1997).

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## Consolidate Military Exchange Stores

Since 1968, studies by GAO, the Department of Defense (DOD), and others have concluded that financial benefits could be achieved through consolidation of military exchange stores into a single entity. The Office of the Secretary of Defense has proposed the integration of the Army/Air Force Exchange System (AAFES) with the Navy and Marine Corps exchange programs, and a task force commissioned to review this consolidation plan in 1996 concluded that a merger would result in annual recurring savings. The task force also noted that the stores' contribution to DOD's morale, welfare, and recreation (MWR) program—a $12 billion enterprise that provides service members, their dependents, and eligible civilians with an affordable source of goods and services like those available to civilian communities—would increase by $3 billion annually.

In January 1997 DOD advised its congressional oversight committees that it planed to continue studying options for integrating exchange functions, under the joint direction of the military departments. DOD stated that a more rigorous analysis was needed before judgments could be made on the optimal organizational structure. In April 1998, DOD awarded a contract to study consolidation. The contractor's April 30, 1999, report presented three organizational options: (1) consolidation, (2) integration of all support functions, such as shipping and receiving, with separate exchange front offices, and (3) maintenance of the status quo with best commercial practices implemented at the exchanges. In August 1999, DOD rejected consolidation and directed that other options to integrate specific business functions common to all exchanges be developed. DOD indicated that total consolidation would take 3 to 5 years to complete, require an investment of $391 million over that period (although one-time savings from the liquidation of excess inventory was expected to offset this investment), and produce 5-year savings of over $1 billion, based on annual recurring savings of about $206 million.

Related to the exchange consolidation proposal is the Hybrid initiative, which DOD has been implementing since 1995. Under this initiative, military exchanges are consolidated with commissaries into BXMARTS—smaller versions of the larger stores, often located at bases scheduled for closure. These "hybrid" stores sell both hard goods normally found in a military exchange and the grocery-type goods associated with military commissaries. This initiative could also result in financial benefits, but DOD has not yet quantified the savings. As of July 1999, 11 hybrids are in operation in Europe and 2 in the U.S., with one more scheduled to open in the U.S. this year; a fourth U.S. site has also been approved. DOD has identified other possible sites and is moving forward to reporting to Congress early this fall.

In light of the potential savings involved and the results demonstrated under the Hybrid initiative, the Congress may wish to direct DOD to consolidate the Navy and Marine Corps exchange operations with the existing Air Force/Army exchange operations.

Excess Equipment for Former Castle AFB (BXMART) (GAO/NSIAD-98-94R, Feb. 27, 1998).
Morale, Welfare, and Recreation: Declining Funds Require DOD to Take Action (GAO/NSIAD-94-120, Feb. 28, 1994).

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## Reassess Defense's Guided Weapons Program

Following the Persian Gulf War, the Department of Defense (DOD) decided to improve and increase its arsenal of guided weapons. Improvements were to increase target destruction while decreasing the number of weapons used, unwanted collateral damage, and exposure of aircraft to enemy defenses. DOD is not, however, providing effective management oversight and coordination over the services' development and procurement programs; there is no central oversight body to examine guided weapons programs in the aggregate and to assess the types and numbers of weapons needed. Consequently, there is widespread overlap and duplication of guided weapons types and capabilities and questionable quantities are being procured for each target class.

To pay for all the new guided systems and upgrades, DOD will need to more than double its average annual spending amount. According to DOD's fiscal year 1999 Future Years Defense Program, planned annual spending for guided weapons will need to increase from about $775 million in fiscal year 1998 to more than $2 billion in fiscal year 2003. These increases are occurring even though the number of potential armored targets U.S. forces expect to face has decreased considerably since 1990, the overall size of DOD's current antiarmor inventory is approximately the same as during the Cold War, and inventories of the more sophisticated and lethal antiarmor weapons have actually increased. Nevertheless, the services continue to invest in antiarmor weapons—several of which are considered guided weapons—and are planning funding increases. There are 35 different types of antiarmor weapons in the current inventory and 10 new types are in production, at an estimated cost of $4.2 billion from fiscal year 2000 through 2003.

The large funding increases needed to support the services' plans may not be cost effective considering widespread overlap and duplication of weapons types and capabilities, questions regarding quantity requirements, existing capabilities and inventory levels, and other high priority defense requirements competing for funding. If the Congress directed DOD to maintain annual guided weapons funding at the already increased fiscal year 1999 level of $1.178 billion and adjust only for inflation, DOD could still achieve substantial improvements in its weapon capabilities with associated savings.

Defense Acquisitions: Reduced Operational Effectiveness of Joint Standoff Weapon (GAO/NSIAD-99-137, Aug. 31, 1999).
Defense Acquisitions: Reduced Threat Not Reflected in Antiarmor Weapon Acquisitions (GAO/NSIAD-99-105, July 22, 1999).
Weapons Acquisitions: Guided Weapon Plans Need to Be Reassessed (GAO/NSIAD-99-32, Dec. 9, 1998).
Future Years Defense Program: DOD's 1998 Plan Has Substantial Risks in Execution (GAO/NSIAD-98-26, Oct. 23, 1997).
Aircraft Acquisition: Affordability of DOD's Investment Strategy (GAO/NSIAD-97-88, Sept. 8, 1997).
Weapons Acquisition: Better Use of Limited DOD Acquisition Funding Would Reduce Costs (GAO/NSIAD-97-23, Feb. 13, 1997).
Combat Air Power: Joint Mission Assessments Needed Before Making Program and Budget Decisions (GAO/NSIAD-96-177, Sept. 20, 1996).
Weapons Acquisition: Precision Guided Munitions in Inventory, Production, and Development (GAO/NSIAD-95-95, June 23, 1995).

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**Reorganize C-130 and KC-135 Reserve Squadrons**

Currently, the majority of the Air Force's C-130 and KC-135 aircraft are in the reserve component—that is, assigned to the Air Force Reserve and the Air National Guard. Typically, reserve component wings are organized in one squadron of 8 C-130 aircraft or 10 KC-135 aircraft. However, active Air Force wings flying the same aircraft are generally organized in two to three squadrons of 14 C-130 aircraft or 12 KC-135 aircraft. Given this organizational approach, reserve component C-130 and KC-135 aircraft are widely dispersed throughout the continental United States, Hawaii, and Alaska.

The Air Force could reduce costs and meet peacetime and wartime commitments if it reorganized its reserve component C-130 and KC-135 aircraft into larger squadrons and wings at fewer locations. These savings would primarily result from fewer people being needed to operate these aircraft. For example, redistributing 16 C-130 aircraft from two 8-aircraft reserve wings to one 16-aircraft reserve wing could save about $11 million dollars annually. This reorganization could eliminate about 155 full-time positions and 245 part-time positions; the decrease in full-time positions is especially significant, since the savings associated with these positions represents about $8 million, or 75 percent of the total savings. Fewer people would be needed in areas such as wing headquarters, logistics, operations, and support group staffs as well as maintenance, support, and military police squadrons.

There are several alternatives that could be developed to redistribute existing reserve component C-130 and KC-135 aircraft into larger squadrons. Sufficient personnel could be recruited for the larger squadrons, and most locations' facilities could be inexpensively expanded to accommodate the unit sizes. Overall savings will depend on the organizational model selected, but each should produce savings to help make additional funding available for force modernization. The alternative that requires the most reorganizing would increase the squadron size to 16 aircraft for the C-130 and 12 for the KC-135 by redistributing aircraft from 13 C-130 squadrons and 5 KC-135 squadrons to other squadrons.

Air Force Aircraft: Reorganizing Mobility Aircraft Units Could Reduce Costs (GAO/NSIAD-98-55, Jan. 21, 1998).

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**Recover More Superfund Hazardous Waste Site Cleanup Costs From Parties Responsible for the Contamination**

The Environmental Protection Agency's (EPA) Superfund program has many management challenges, including the need to more effectively (1) recover from those responsible for the contamination billions of dollars in cleanup costs which the agency incurs when it pays for hazardous waste cleanup activities, and (2) monitor its cost-recovery performance. Historically EPA has not charged responsible parties for some indirect costs, which the agency could appropriately recover for operating the Superfund program, due to uncertainty over which costs were legally recoverable. When settling cost-recovery cases, EPA has used a methodology that excludes a large portion of indirect program costs and thus understates costs to responsible parties. Through fiscal year 1998, the agency has failed to recover about $2 billion in indirect costs excluded from final settlements with responsible parties. Adopting a more complete indirect cost rate could significantly increase recoveries from responsible parties, thus reducing the federal government's costs. Because the taxing authority used to replenish the Trust Fund has expired, increasing the amount of indirect cost recoveries is of growing importance. EPA could bolster the Trust Fund balance and help postpone the depletion of the fund, and thus reduce the need for the Congress to appropriate cleanup monies from general revenues.

To improve the management of EPA's Superfund cost-recovery efforts, EPA could (1) better track its cost-recovery efforts, (2) set performance measures to better assess whether problems existed within the agency's control and whether further action is required to enhance Superfund cost–recovery activities, and (3) adopt new, more comprehensive indirect cost rates to bolster program revenues which can be returned to the Superfund Trust Fund. If implemented, this should help to reduce the need for additional appropriations for cleanup activities.

Superfund: Progress Made by EPA and Other Federal Agencies to Resolve Program Management Issues (GAO/RCED-99-111, Apr. 20, 1999).
Superfund: Progress, Problems, and Future Outlook (GAO/T-RCED-99-128, Mar. 23, 1999).
Major Management Challenges and Program Risks: Environmental Protection Agency (GAO/OCG-99-17, Jan.1, 1999).
High-Risk Series: Superfund Program Management (GAO/HR-97-14, Feb. 1997).

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**Reassess Federal Land Management Agencies and Programs**

The responsibilities of the four major land management agencies—the Forest Service, the Bureau of Land Management, the Fish and Wildlife Service, and the National Park Service—have grown increasingly similar over time. Increased collaboration and consolidation is needed among these agencies in meeting the multifaceted goals and objectives of federal land. Most notably, the Forest Service and the Bureau of Land Management—whose organizational and demographic profiles and missions and goals are similar in many respects—now provide more noncommodity uses on their lands, including recreation and protection for fish and wildlife. The Fish and Wildlife Service and the National Park Service already manage their lands for noncommodity uses. In addition, managing federal lands has become more complex. Managers have to reconcile differences among a growing number of laws and regulations, and the authority for these laws is dispersed among several federal agencies and state and local agencies. These changes have coincided with two other developments: (1) the federal government's increased emphasis on downsizing and budgetary constraints, and (2) scientists' increased understanding of the importance and functioning of natural systems whose boundaries may not be consistent with existing jurisdictional and administrative boundaries. Together these changes and developments demand that federal agencies look beyond existing jurisdictional boundaries to find ways to reduce costs, increase efficiency, and improve service to the public by refocusing, combining, or eliminating certain functions, systems, programs, activities, or field locations.

Two basic strategies have been proposed to improve the efficiency and promote economy in federal land management. One would focus primarily on streamlining the existing structure by integrating and coordinating functions, systems, activities, programs, and field locations, while the other would reorganize the structure primarily by combining agencies. While savings are clearly possible, the Congressional Budget Office cannot estimate the savings that will occur as a result of sharing resources without a specific restructuring proposal that would eliminate certain programs or revise how the land is managed.

Federal Wildfire Activities: Current Strategy and Issues Needing Attention (GAO/RCED-99-223, Aug. 13, 1999).
Land Management: The Forest Service's and BLM's Organizational Structures and Responsibilities (GAO/RCED-99-227, July 29, 1999).
Ecosystem Planning: Northwest Forest and Interior Columbia River Basin Plans Demonstrate Improvements in Land-Use Planning (GAO/RCED-99-64 May 26, 1999).
Land Management Agencies: Revenue Sharing Payments to States and Counties (GAO/RCED-98-261, Sept. 17, 1998).
Federal Land Management: Streamlining and Reorganization Issues (GAO/T-RCED-96-209, June 27, 1996).
National Park Service: Better Management and Broader Restructuring Efforts Are Needed (GAO/T-RCED-95-101, Feb. 9, 1995).
Ecosystem Management: Additional Actions Needed to Adequately Test a Promising Approach (GAO/RCED-94-111, Aug. 16, 1994).

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## Increase Aircraft Registration Fees to Recover Actual Costs

In 1977, the Congress amended the Federal Aviation Act and identified three categories of aircraft owners—U.S. citizens, resident aliens, and U.S.-based foreign companies—that may register aircraft in the United States. To register an aircraft, an eligible owner submits a $5 fee. As of December 1977, 349,528 aircraft were registered in the United States. In fiscal year 1997, the Federal Aviation Administration (FAA) issued 59,353 certificate registrations.

FAA has not been fully recovering the cost of processing aircraft registration applications. By not increasing fees to recover costs for 25 years—from 1968 through 1992—FAA lost approximately $6.5 million in additional revenue. Despite promises to review and adjust its charges for aircraft registration, FAA has delayed any determination on this matter until the end of calendar year 2000. The Congressional Budget Office has estimated that FAA will continue to forego approximately $1 million each year it delays revising its registration fee structure.

To recover the costs of services provided aircraft registrants, FAA should increase its aircraft registration fees to more accurately reflect actual costs.

Aviation Safety: Unresolved Issues Involving U.S.-Registered Aircraft (GAO/RCED-93-135, June 18, 1993).

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**Improve FAA Oversight and Enforcement to Ensure Proper Use of General Aviation Airport Land and Revenue**

The Federal Aviation Administration's (FAA) failure to oversee and enforce land use requirements at general aviation airports has allowed instances of unauthorized land use to go uncorrected for decades. This lack of oversight has increased risks to aviation safety and resulted in the loss or diversion of millions of dollars in airport revenue. For example, at two airports, unauthorized landfills attracted birds, creating a risk to landing and departing aircraft--one aircraft suffered $20,000 in damage because of such a "birdstrike." Unauthorized construction at another airport led to an aircraft accident—while taxiing at the airport at night, a plane hit an unmarked and unlighted excavation hole for a sports facility. In addition, airport land has been inappropriately used for mobile home parks; little league baseball fields; dog pounds; duck-hunting blinds; and city police, fire, and vehicle maintenance facilities, resulting in the loss of millions of dollars in airport revenue. FAA has failed to use its regulatory powers to effectively enforce land and revenue use requirements in cases where unauthorized uses have been identified. In two unresolved cases, unauthorized land use and revenue diversion had been going on for decades without correction. Unauthorized uses of land at the airports included city police, fire, street maintenance and sports facilities constructed on airport land without FAA's approval. At one airport, Transportation's Inspector General estimated the revenue diversion caused by the city's use of airport property from 1984 through 1995 rent-free to be about $2.8 million. Although FAA was aware of the circumstances in both cases, they had not taken any enforcement actions. Because FAA does not monitor general aviation airports' compliance with federal land use requirements, it cannot determine how frequently unauthorized land use has occurred, identify potential risks to aviation safety, nor estimate how much revenue has been lost or diverted.

The Congress could take steps to strengthen FAA's monitoring. The potential for risks to aviation safety and revenue diversion suggests that FAA must provide greater assurance that its monitoring activities are regular and effective to ensure that federal requirements for the use of airport land and revenues are met.

General Aviation Airports: Oversight and Funding (GAO/T-RCED-99-214, June 6, 1999).
General Aviation Airports: Unauthorized Land Use Highlights Need for Improved Oversight and Enforcement (GAO/RCED-99-109, May 7, 1999).

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## **Close, Consolidate, or Privatize Some Coast Guard Operating and Training Facilities**

Given the serious budget constraints the Coast Guard now faces and its need to completely revamp its fleet of cutters and aircraft—at a cost of $10 billion—the Coast Guard needs to achieve budget savings. One approach toward this goal would be to downsize its current operating or training facilities. Several GAO studies have identified specific candidates. For example, in fiscal year 1996, the Coast Guard could have saved $6 million by closing or consolidating over 20 small boat stations. Although the Coast Guard generally agreed with this estimate, the Congress kept the stations open. In fiscal year 1995, the Coast Guard agreed that closing one of its large training centers in Petaluma, California, could save $9 million annually, but maintained the station largely because of public opposition. Also, the Coast Guard continues its operations at the shipbuilding facility at Curtis Bay, Maryland, even though it had determined in 1988 that it could contract out this facility's repair and maintenance work for annual savings of $2 million to $3 million. Finally, in 1996, GAO recommended that the Coast Guard consider other alternatives—such as privatization—to operate its vessel traffic service centers, which could cost about $42 million each year to operate.

To achieve budget savings needed for looming future expenditures, the Congress could consider closing, consolidating, or privatizing some Coast Guard training and operating facilities.

Coast Guard: Review of Administrative and Support Functions (GAO/RCED-99-62R, Mar. 10, 1999).
Coast Guard: Challenges for Addressing Budget Constraints (GAO/RCED-97-110, May 14, 1997).
Marine Safety: Coast Guard Should Address Alternatives as It Proceeds With VTS 2000 (GAO/RCED-96-83, Apr. 22, 1996).
Coast Guard: Issues Related to the Fiscal Year 1996 Budget Request (GAO/T-RCED-95-130, Mar. 13, 1995).
Coast Guard: Improved Process Exists to Evaluate Changes to Small Boat Stations (GAO/RCED-94-147, Apr. 1, 1994).

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## Reassess Unneeded Health Care Assets within the Department of Veterans Affairs

The Department of Veterans Affairs (VA) owns 4,700 buildings and 18,000 acres of land, which it uses to operate 181 major health care delivery locations. These locations operate in 106 health care markets nationwide. These include 40 markets where multiple VA facilities compete with each other to serve veterans (115 locations) and 66 markets served by a single VA delivery location. VA spends a major portion of its $18.4 billion health care budget—about 1 out of every 4 dollars—to operate, maintain, and improve its delivery locations, generally referred to as the costs of asset ownership. All VA delivery locations project a declining veteran population base for their primary market areas, with two-thirds expecting declines greater than 33 percent over the next 20 years.

Without a major restructuring, billions of dollars will be used in the operation of hundreds of unneeded VA buildings over the next several years. For example, VA could realize efficiency savings totaling millions of dollars and provide the same or higher quality of care by consolidating medical and administrative services in fewer than its 4 major delivery locations in the Chicago area; over 120 buildings are currently operated and maintained at these locations. VA responded by studying and then identifying six restructuring options for the Chicago area, with projected annual savings ranging between $132 million and $189 million in fiscal year 2010 (VA believes that it will need 10 years to fully implement any restructuring option). In September 1999, VA announced its intent to implement the option that realizes the largest dollar savings, primarily because, according to VA, it maximizes the accessibility and quality of medical care for veterans. Many stakeholders, especially medical schools, have voiced objections to VA's restructuring plan

VA needs to implement an asset realignment plan not only for the Chicago area; it also needs to develop and implement realignment plans for its other 105 markets. As part of this planning effort, VA should conduct rigorous market analyses, a tool that has produced positive results in the private sector. Such analyses include a determination of veterans' health care needs in a market, a comparison of life-cycle costs of asset ownership, and alternatives analyses to enable VA to evaluate options for meeting needs in the most cost-effective manner.

VA Health Care: Improvements Needed in Capital Asset Planning and Budgeting (GAO/HEHS-99-145, Aug. 13, 1999).
VA Health Care: Challenges Facing VA in Developing an Asset Realignment Process (GAO/T-HEHS-99-173, July 22, 1999).
Veterans' Affairs: Progress and Challenges in Transforming Health Care (GAO/T-HEHS-99-109, Apr. 15, 1999).
VA Health Care: Capital Asset Planning and Budgeting Need Improvement (GAO/T-HEHS-99-83, Mar. 10, 1999).
VA Health Care: Closing a Chicago Hospital Would Save Millions and Enhance Access to Services (GAO/HEHS-98-64, Apr. 16, 1998).

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